Series 2018-1 REDS EHP Trust

ABN 53 983 486 079

Annual Financial Report for the year ended - 31 August 2020

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Series 2018-1 REDS EHP Trust
Statement by Manager
31 August 2020

In the opinion of the Manager:

(a) the Trust is not publicly accountable nor a reporting entity;

(b) The financial statements and notes, set out on pages 3 to 16

- Present fairly the financial position of the Trust as at 31 August 2020 and the financial performance, as represented by the result of the operations and the cash flows, for the financial year ended on that date in accordance with the statement of compliance and basis of preparation as described in notes 2 and 3; and
- Comply with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in note 2.

(c) the Trust has operated during the year ended 31 August 2020 in accordance with the provisions of the Master Trust Deed dated 10 February 1998 (as amended) and the Series 2018-1 REDS EHP Trust Series Supplement dated 5 November 2018.

(d) at the date of this statement, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Dated in Brisbane this 12th day of November 2020.

Signed on behalf of the Manager, B.Q.L. Management Pty Ltd,

Ewen Stafford

Ewen Stafford
Director of the Manager

Series 2018-1 REDS EHP Trust
Trustee's report
31 August 2020

The financial statements for the financial year ended 31 August 2020 have been prepared by the Trust's Manager, B.Q.L. Management Pty Ltd, as required by the Master Trust Deed dated 10 February 1998 (as amended).

The auditors of the Trust, KPMG, who have been appointed by us in accordance with the Master Trust Deed, have conducted an audit of the financial statements.

Based on our ongoing program of monitoring the Trust, we believe that:

(a) the Trust has been conducted in accordance with the Master Trust Deed dated 10 February 1998 (as amended) and the Series 2018-1 REDS EHP Trust Series Supplement dated 5 November 2018; and

(b) These financial statements are special purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretation) to the extent described in Note 2.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Manager.

We are not aware of any material matters or significant changes in the state of affairs of the Trust occurring up to the date of this report that require disclosure in the financial statements and the notes thereto that have not already been disclosed.

Signed for and on behalf of
Perpetual Trustee Company Limited

Nathan Gale
Senior Client Service Manager

Dated in Sydney this 12th day of November 2020.

Series 2018-1 REDS EHP Trust
Statement of profit or loss and other comprehensive income
For the year ended 31 August 2020

	Note	**2020 $'000**	2019 * $'000
Revenue			
Interest income		**30,968**	36,694
Expenses			
Interest expense - Class A noteholders		**11,506**	16,928
Interest expense - Class B noteholders		**10,499**	10,264
Trustee and custodian fees		**373**	338
Management fees		**897**	810
Contracted servicing fees		**2,693**	2,436
Bad debt write off (net of recoveries)		**760**	396
Movement in provision for lease receivables	6	**8,817**	7,996
Standby swap provider fee		**789**	710
Other expenses		**28**	33
Total expenses before distribution expense to unitholders		**36,362**	39,910
Profit from operating activities		**(5,394)**	(3,216)
Distribution expense		**(3,423)**	(4,780)
Profit/(loss) for the year attributable to unitholders		**(8,817)**	(7,996)
Opening net liabilities attributable to unit holders		**-**	-
Total comprehensive income for the year attributable to unitholders		**(8,817)**	(7,996)

* The comparative amounts cover a shorter period from 1 November 2018 to 31 August 2019 as the Trust was opened in the prior financial year.

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Series 2018-1 REDS EHP Trust
Statement of changes in equity
For the year ended 31 August 2020

The Trust's net assets attributable to unit holders are classified as a liability under AASB 132 *Financial Instruments*; Presentation.

As the Trust holds no equity, movements in equity have not been included for the current year and for any comparative years.

The statement of changes in equity should be read in conjunction with the accompanying notes.

Series 2018-1 REDS EHP Trust
Statement of financial position
As at 31 August 2020

	Note	**2020 $'000**	2019 $'000
Current assets			
Cash and cash equivalents	10(a)	**35,546**	130,407
Receivables	5	**2,654**	2,254
		38,200	132,661
Non-current assets			
Financial assets	6	**684,527**	863,523
Total assets		**722,727**	996,184
Current liabilities			
Payables	7	**3,182**	4,180
Non-current liabilities			
Interest bearing liabilities	8	**736,358**	1,000,000
Total liabilities (excluding net assets attributable to unitholders)		**739,540**	1,004,180
Represented by:			
Net liabilities attributable to unitholders – liability	9(b)	**(16,813)**	(7,996)

The statement of financial position should be read in conjunction with the accompanying notes.

Series 2018-1 REDS EHP Trust
Statement of cash flows
For the year ended 31 August 2020

	Note	**2020 $'000**	2019* $'000
Cash flows from operating activities			
Interest received		**31,251**	37,383
Interest paid		**(28,163)**	(30,165)
Payments to note holders		**(220,697)**	(255,773)
Principal repayment from lease receivables		**390,510**	382,258
Net cash inflow from operating activities	10(b)	**172,901**	133,703
Cash flows from investing activities			
Payment for leases		**(220,697)**	(1,255,773)
Net cash outflow from investing activities		**(220,697)**	(1,255,773)
Cash flows from financing activities			
Proceeds from issuance of notes		**220,697**	1,255,773
Repayment of notes		**(263,643)**	-
Distribution paid to unit holder		**(4,119)**	(3,296)
Net cash (outflow)/inflow from financing activities		**(47,065)**	1,252,477
Net (decrease)/increase in cash and cash equivalents		**(94,861)**	130,407
Cash and cash equivalents at the beginning of the financial year		**130,407**	-
Cash and cash equivalents at the end of the financial year	10(a)	**35,546**	130,407

* The comparative amounts cover a shorter period from 1 November 2018 to 31 August 2019 as the Trust was opened in the prior financial year.

The statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Reporting entity

The Series 2018-1 REDS EHP Trust was established by the Master Trust Deed dated 10 February 1998 (as amended) between the Manager (B.Q.L. Management Pty Ltd) and the Trustee (Perpetual Trustee Company Limited) and the Series 2018-1 REDS EHP Trust Series Supplement dated 5 November 2018 between the Seller and Servicer (Bank of Queensland Limited – "the Bank"), the Manager (B.Q.L. Management Pty Ltd) and the Trustee (Perpetual Trustee Company Limited).

The Trust was established with the purpose of providing funds for the purchase of investments, being hire purchase and chattel mortgages. The Trust operates in the lease receivables securitisation industry in Australia.

The Trust funded the purchase of leases through the issue of Class A and Class B notes which represent debts of the Trust.

The Trust is domiciled in Australia. The registered office of the Manager, B.Q.L. Management Pty Ltd, is Level 6, BOQ Village,100 Skyring Terrace, Newstead, Queensland, 4006.

Note 2. Basis of preparation

Statement of compliance

In the opinion of the Manager, the Trust is not publicly accountable nor a reporting entity. The financial report of the Trust has been drawn up as special purpose financial report for the sole purpose of fulfilling the requirements of the Master Trust Deed for distribution to the investors.

The special purpose financial reports have been prepared in accordance with Australian Accounting Standards ('AASB's') adopted by the Australian Accounting Standards Board ('AASB') and the requirements of the Master Trust Deed dated 10 February 1998 (as amended).

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements:

AASB101	Presentation of financial statements
AASB107	Statement of cash flows
AASB108	Accounting policies, Changes in Accounting Estimates and Errors
AASB1048	Interpretation and Application Standards
AASB1054	Australian Additional Disclosures

The financial report does not include all the disclosure, measurement and recognition requirements of AASB 9 *Financial Instruments*. The major impact of fully adopting AASB 9 would have been that the Trust would have recognised a financial asset due from the Bank, representing a secured loan rather than the underlying securitised hire purchase and chattel mortgages. The interest receivable on the financial asset would have represented the return on an imputed loan between the Bank and the Trust, being the interest income under the hire purchase and chattel mortgages, net of the fees payable to the Bank by the Trust and the net interest income/expense recognised under derivative contracts such as interest rate swaps. Derivative financial instruments have not been recognised in these financial statements except to the extent set out in note 3(f).

The financial report was authorised for issue by the Manager on 12 November 2020.

Basis of measurement

The financial report has been prepared on the historical cost basis.

Functional and presentational currency

The financial report is presented in Australian dollars, which is the Trust's functional currency.

Note 2. Basis of preparation (continued)

Rounding
The Trust is an entity of the kind referred to in the ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in this financial report have been rounded to the nearest thousand Australian dollars, unless otherwise stated.

Accounting estimates and judgements
The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods if affected.

The area which involves significant estimation, uncertainty and critical judgements in applying accounting policies and has the most significant effect on the amounts recognised in the financial report is the impairment of financial assets as described in note 3(e) Financial Assets – Impairment of financial assets.

Note 3. Significant accounting policies

Consistency of accounting policies
The accounting policies applied are consistent with those of the previous year, unless otherwise stated.

New accounting standards and amendments
The following new standards and amendments to standards have been adopted with no material impact on the Trust.

- AASB Interpretation 23 *Uncertainty over Income Tax Treatments;*
- AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments;
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation;
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures;
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle;
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement;
- AASB 2018-3 Amendments to Australian Accounting Standards –Reduced Disclosure Requirements, and
- AASB 16 Leases.

AASB 2020 – 2 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

The Australian Accounting Standards Board ("AASB") has issued a revised Conceptual Framework which introduces a new reporting entity concept (2019-1). As part of introducing the new reporting entity concept, the AASB also introduced AASB 2020-2 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* ("AASB 2020-2"), which removes the ability for certain for-profit private sector entities to prepare Special Purpose Financial Statements ("SPFS") where there are regulator or other legal requirements to prepare financial statements in compliance with the Australian Accounting Standards. Such entities can only prepare General Purpose Financial Statements.

Note 3. Significant accounting policies (continued)

New accounting standards and amendments (continued)

However, where financial statements are prepared only due to requirements of the entity's Trust Deed or Constitution, AASB 2020-2 allows the entity to still prepare SPFS provided that the entity's governing document is amended to remove the requirements to prepare financial statements under the Australian Accounting Standards and to specify the new basis of preparation for the financial statements of the entity.

AASB 2020-2 is effective for financial years beginning on or after 1 July 2021, but can be early adopted. The Trust Manager is currently assessing the impacts of AASB 2020-2 on the financial statements of the Trust.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(a) Revenue recognition

Revenue
The Trust recognises revenue as follows:

Interest income and expenses
Interest income and expenses for all interest bearing financial instruments are recognised in the profit or loss using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments and receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Trust that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Interest income on finance lease receivables is recognised progressively over the life of the lease, reflecting a constant periodic rate of return on the net investment.

(b) Income and expenses

Income and expenses are brought to account on an accruals basis.

The Manager and Trustee are entitled under the Master Trust Deed (as amended), to be reimbursed for certain expenses incurred in administering the Trust. The basis on which the expenses are reimbursed is defined in the Series Supplement. The amount reimbursed is disclosed in the statement of profit or loss and other comprehensive income and was calculated in accordance with the Series Supplement.

(c) Income tax

Under current legislation the Trust is not subject to income tax as the taxable income, including the assessable realised capital gains, is distributed in full to the unit holder. The Trust fully distributes its distributable income, calculated in accordance with the Master Trust Deed (as amended) and Series Supplements and applicable taxation legislation, to the unitholders who are presently entitled to the income.

(d) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash at the Manager's option and are subject to insignificant risk of changes in value.

Note 3. Significant accounting policies (continued)

(e) Financial assets

Hire Purchase and Chattel Mortgage Contracts
Hire purchase and chattel mortgage receivables are recorded at fair value at acquisition date and are brought to account as receivables for their fair value less finance charges yet to mature. Hire purchase and chattel mortgage receivables are recorded at fair value at acquisition date and subsequently measured at amortised cost. Finance charges yet to mature are calculated using a daily accrual method. Finance charges and amortisation of fair value adjustments are classified as interest income.

Impairment of financial assets
The Trust recognises a loss allowance for expected credit losses (ECL) on financial assets which are measured at amortised cost. The ECL allowance is based on the credit losses expected to arise over the next 12 months of the financial asset, unless there has been a significant increase in credit risk (SICR) since origination. In this case, the allowance is based on the ECL for the life of the financial asset. The 12 months' ECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial asset that are possible within the 12 months after the reporting date.

At the end of each reporting period, the Trust performs an assessment of whether a financial asset's credit risk has increased significantly since initial recognition. This is done by considering the change in the risk of default occurring over the remaining life of the financial asset.

Bad debts are written off when identified and are recognised as expenses in the statement of profit or loss and other comprehensive income.

The Trust applies a three stage approach to measuring the ECL, as described below:

- Stage 1 – For financial assets where there has not been a SICR since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default (**PD**) occurring within the next 12 months is recognised as the 12 month ECL, adjusted for forward-looking information. Stage 1 includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.

- Stage 2 – When there has been a SICR, the lifetime ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for forward-looking information. The Trust assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable forward-looking information that includes significant management judgement. Use of alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based on the behavioural maturity of the financial asset, which is generally less than or equal to the contractual maturity. Stage 2 also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3 - This includes financial assets that are deemed to be credit impaired, which generally correspond to the APRA definition of default and include exposures that are at least 90 days past due. The provision is also equivalent to the lifetime ECL. Financial assets in Stage 3 will have a collective provision determined by the ECL model, although some loans are individually covered by a specific provision. A specific provision is calculated based on estimated future cash flows discounted to their present value, net of any collateral held against that financial asset.

Write-offs
Financial assets are written off, either partially or in full, against the related provision when the Trust concludes that there is no reasonable expectation of recovery and all possible collateral has been realised. Recoveries of financial assets previously written off decrease the amount of impairment losses recognised in profit or loss and are recognised based on the cash received.

Note 3. Significant accounting policies (continued)

(e) Financial Assets (continued)

Significant increase in credit risk
SICR for financial assets are assessed by comparing the risk of a default occurring over the expected life of a financial asset at the reporting date compared to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the Trust considers qualitative and quantitative information.
For most of the Trust's asset finance and leasing portfolio, a statistical model has been developed to identify where a facility's recent behaviour has deteriorated significantly from its origination behaviour. For all loan portfolios, the primary indicator is in addition to the secondary SICR indicator, which is based on 30 days past due arrears information.

Calculation of ECL
Both 12 months' ECLs and lifetime ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial assets. Where ECL is modelled collectively for portfolios of exposures, it is modelled primarily as the product of the PD, the loss given default (**LGD**) and the exposure at default (**EAD**). These parameters are generally derived from internally developed statistical models combined with historical, current, and forward-looking information, including macro-economic data:

- The 12-months and lifetime PD, for accounting purposes, represent the estimation of the point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk;
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility; and
- The LGD represents the expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised, and the time value of money.

Incorporation of forward-looking information
The credit risk factors described above are estimates at a point in time based on the probability weighted forward-looking economic scenarios. The inclusion of a forward-looking component in the model anticipates changes in the economic outlook, which will likely increase the volatility of the provision. The Trust considers four forward-looking macro-economic scenarios (boom, recovery, slow down and recession) over time horizons ranging from one year to over four years to ensure a sufficient unbiased representative sample is included in estimating the forward-looking ECL. Sensitivity analysis is also performed on each of the macro-economic scenarios and if conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

The scenarios, including its underlying indicators, are developed using a combination of publicly available data, internal forecasts and third party information to form the initial baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks.

Economic outlook factors that are taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, commercial and residential property price indexes, and require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Note 3. Significant accounting policies (continued)

(e) Financial Assets (continued)

Governance
The Executive Credit Committee has the delegation for reviewing and approving the methodology, and any judgements and assumptions. A Quarterly Economic Forum is held by the parent entity to discuss and approve future economic forecasts, and the associated probability weights and economic scenarios which are then incorporated into the Bank's ECL model. Where applicable, management adjustments or overlays may be made to account for situations where known or expected risks and information have not been considered in the modelling process. Key areas of judgement, as determined by the parent entity and applied to the Trust's provision for impairment on loans and receivables, are reported to the parent entity's Audit Committee and Board at each reporting period.

Impact of COVID-19
On 11 March 2020, the World Health Organisation characterised the novel coronavirus (COVID-19) as a pandemic. In addition to health and societal issues, this has caused disruptions to businesses and economic activity. This continued to be an evolving issue as at 31 August 2020, and is reflected in an increase of $6,110,000 within the Expected Credit Loss provision, based upon anticipated impacts on customers existing at that date and having regard to the current economic outlook as at 31 August 2020. Further information on the impact of COVID-19 is outlined in Note 6 of the Financial Statements.

(f) Derivative financial instruments

The Trust is exposed to changes in interest rates from its activities. The Trust uses interest rate swaps as derivative financial instruments to hedge this risk. Derivative financial instruments are not held for speculative purposes. Interest payments and receipts under interest rate contracts are recognised on an accruals basis in the statement of profit or loss and other comprehensive income as an adjustment to interest income during the period.

(g) Receivables

Receivables are carried at their amortised cost less impairment losses.

(h) Payables

Payables are initially recognised at fair value for amounts to be paid in the future for goods or services received and are subsequently measured at amortised cost.

(i) Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value and, subsequently measured at amortised cost using the effective interest rate method.

(j) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred (or a portion of the GST incurred) is not recoverable from the Australian Taxation Office (**ATO**). In these circumstances, the irrecoverable GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

Note 3. Significant accounting policies (continued)

(k) Clean up Provisions per Trust Deed Supplement

The Manager may direct the Bank to repurchase or transfer the remaining receivables to another REDS Series Trust where:

(i) The aggregate principal outstanding on the receivables on the last day of any Monthly Period, when expressed as a percentage of the total principal outstanding at the commencement of the Trust is below the clean up percentage of 10%; or

(ii) The tenth anniversary of the Closing Date of the Trust occurs; provided the Australian Prudential Regulation Authority ("APRA") has advised that it will permit the Bank to exercise its rights to repurchase the remaining receivables.

Note 4. Auditor's remuneration

The auditor's remuneration for the Trust is paid by the parent entity, the Bank. The following amounts were attributable to the Trust in relation to the audit, transaction testing and the securitisation set up fees for the Trust.

Fees paid to the Auditor of the Trust, KPMG Australia:

	2020 **$**	2019 $
Audit services:		
Audit of financial statements	**7,900**	7,900
Other services:		
Other services	**8,200**	8,200
	16,100	16,100

Note 5. Receivables

	2020 **$'000**	2019 $'000
Interest collections receivable from servicer	**291**	206
Principal collections receivable from servicer	**2,362**	1,997
GST recoverable	**1**	51
	2,654	2,254

As at 31 August 2020 there were no receivables balances in arrears (2019: nil)

Note 6. Financial assets

	2020 **$'000**	2019 $'000
Hire purchase, chattel mortgages & finance leases	**701,340**	871,518
Less: provision for impairment – Stage 1 - 12 Months ECL	**(4,517)**	(3,679)
Less: provision for impairment – Stage 2 – Lifetime ECL	**(7,636)**	(3,209)
Less: provision for impairment – Stage 3 – Lifetime ECL	**(2,075)**	(390)
Less: provision for impairment – Stage 3 – Specific	**(2,585)**	(717)
Total financial assets	**684,527**	863,523

Note 6. Financial assets (continued)

Impact of COVID-19 on ECL

From March 2020, in response to the COVID-19 pandemic, the Bank has implemented a number of initiatives aimed at enhancing the economic resilience of its customers including repayment deferrals of up to six months. In July 2020 the Bank announced that customers may be able to extend their existing repayment deferrals by up to four months depending on their individual circumstances. In line with guidance from APRA, the Bank has not treated the period of the deferral as a period of arrears, where the customer was otherwise performing.

As the pandemic has evolved, the Bank has taken the opportunity to consider the appropriateness and adequacy of its provisioning. A number of external and internal factors were considered in arriving at COVID-19 overlay for the Bank, determined on three probability weighted possible economic scenarios, considering the facts, circumstances and forecasts of future economic conditions and supportable information available at the reporting date.

External factors involved a peer comparison of COVID-19 overlays across the market, a comparison of the scenario designs for various ADIs and insights from the APRA stress testing exercise. Internal factors included analysis of:
• Insights gathered via a significant exposure review, which involved a deep dive into a number of priority exposures related to sectors highly impacted by COVID-19;
• Analysis of customers impacted by COVID-19, particularly those on Banking Relief Packages and the likelihood of recovery of these customers; and
• Credit risk rating downgrades since the pandemic commenced to garner insights into those sectors most impacted

The three scenarios that were considered were Base case, Downside and Severe, that were probability weighted 75%, 20% and 5% respectively. The general shape of the economic recovery varies within each scenario. The table below provides a summary of macro-economic assumptions used in the scenarios as at 31 August 2020.

	GDP (annual change) %	Unemployment rate %	Residential Property prices (annual change) %	Commercial Property prices (annual change) %
Base -2020	(6.0)	10.0	(6.0)	(10.0)
Base -2021	5.0	8.5	(5.0)	(5.0)
Base -2022	4.0	7.0	5.0	5.0
Downside- 2020	(7.5)	10.5	(10.0)	(15.0)
Downside- 2021	4.0	9.0	(7.5)	(7.5)
Downside- 2022	3.0	7.5	5.0	5.0
Severe - 2020	(9.0)	12.0	(12.5)	(20.0)
Severe - 2021	5.0	10.0	(10.0)	(10.0)
Severe - 2022	3.5	8.0	-	-

The impact on the Trust financial statements is the recognition of an apportionment of the Bank's overlay included in the ECL component of the above provisioning. The COVID overlay is based on the equipment finance overlay and is apportioned based on the proportion of the Trust's ECL over the total BOQ equipment finance portfolio ECL.

	2020 **$'000**	2019 $'000
Note 7. Payables		
Distribution payable to unit holder	**788**	1,484
Servicing fee payable	**191**	244
Custodian fee payable	**13**	17
Interest payable to noteholders	**793**	1,368
Interest rate swap payable	**1,262**	894
Other	**135**	173
Total payables	**3,182**	4,180
Note 8. Interest bearing liabilities		
Class A notes	**515,451**	779,000
Class B notes	**220,907**	221,000
Total interest bearing liabilities	**736,358**	1,000,000

A floating charge exists over all the assets of the Trust securing the amounts owing to each noteholder and any other secured creditor.

Note 9. Net liabilities attributable to unitholders

	2020	2019
(a) Units on Issue	**Units**	Units
Income Units	**1**	1
Capital Units	**10**	10
	11	11

The beneficial interest in the Series Trust is divided into Units in accordance with the Trust Creation Deed. The Units have been issued to the Unitholders in accordance with the Master Trust Deed and the Trust Creation Deed.

The Income Unitholder has only the right to receive payments of the Income Unit Amount in relation to the Income Unit only to the extent that funds are available for the purposes in accordance with this Deed. The Income Unitholder has no entitlement to the capital of the Series Trust.

The Capital Unitholders only have the right to receive the balance of any principle collections available in accordance with the Trust Deed and only to the extent that there are funds, or on the termination of the Trust the capital remaining after the payment (or the provision for payment) of all other outgoings and amounts by the Trustee.

	2020 $'000	2019 $'000

Note 9. Net liabilities attributable to unitholders

(b) Movement in net liabilities attributable to unitholders

	2020 $'000	2019 $'000
Opening Balance	**(7,996)**	-
Loss from operating activities	**(5,394)**	(3,216)
Distribution expense	**(3,423)**	(4,780)
Closing balance	**(16,813)**	(7,996)

Note 10. Notes to statement of cash flows

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2020 $'000	2019 $'000
Cash and cash equivalents	**35,546**	130,407

(b) Reconciliation of net operating income to net cash from operating activities

	2020 $'000	2019 $'000
Loss from operating activities	**(5,394)**	(3,216)
Adjustments for non cash items:		
Movement in impairment provision	**8,817**	7,996
Change in operating assets and liabilities during the financial year:		
Increase in receivables	**(401)**	(2,254)
Decrease/(increase) in financial assets	**170,179**	(871,518)
(Decrease)/increase in payables	**(300)**	2,695
Increase in interest bearing liabilities	**-**	1,000,000
Net cash inflow from operating activities	**172,901**	133,703

Note 11. Contingencies and commitments

The Trust has no material contingent liabilities or commitments as at 31 August 2020 or 31 August 2019.

Note 12. Events subsequent to reporting date

There has not arisen, in the interval between the end of the year and the date of this report, any item, transaction or event of a material and unusual nature, likely, in the opinion of the Trustee, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years..

Note 13. Going Concern

The Trust has recorded a deficiency in net liabilities attributable to unitholders of $16,813,000. This deficiency is solely due to the recognition of life to date impairment provisions which did not involve the outflow of cash.
The impairment provision will be assessed each year and as the contracts mature the provision will be reversed over the life of the Trust, any write offs will be expensed as incurred and on this basis the financial statements have been prepared on a going concern basis. The impairment provision as shown in note 6 was $16,813,000.

Independent Auditor's Report

To the Trustee of Series 2018-1 REDS EHP Trust

Opinion

We have audited the ***Financial Report*** of Series 2018-1 REDS EHP Trust (the Trust).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Series 2018-1 REDS EHP Trust as at 31 August 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the basis of preparation described in Notes 2 and 3 to the financial statements.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 August 2020;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Trust in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Note 2 to the Financial Report, which describes the basis of preparation.

The Financial Report has been prepared to assist the Trustee of Series 2018-1 REDS EHP Trust in meeting the financial reporting requirements of the Master Trust Deed.

As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Trustee of Series 2018-1 REDS EHP Trust and should not be used by or distributed to parties other than the Trustee of Series 2018-1 REDS EHP Trust. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Report to which it relates, to any person other than the Trustee of Series 2018-1 REDS EHP Trust or for any other purpose than that for which it was prepared.

Other Information

Other Information is financial and non-financial information in Series 2018-1 REDS EHP Trust's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Trust Manager is responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Trust Manager for the Financial Report

The Trust Manager is responsible for:

- the preparation and fair presentation of the Financial Report in accordance with the financial reporting requirements of the Master Trust Deed and have determined that the basis of preparation described in Notes 2 and 3 is appropriate to meet the needs of the investors;
- implementing necessary internal control to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error; and
- assessing the Trust's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

The Trustee is responsible for overseeing the Trust's financial reporting process.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Tracey Barker
Partner

Brisbane
12 November 2020