2011-2012
Annual Report

Defence Bank

Contents

Directors' report

The directors of Defence Bank Limited (Defence Bank or the Bank) submit herewith the annual financial report of the Bank for the year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

The names and particulars of the directors of the Bank during or since the end of the financial year and their roles as at the date of this report are as follows:

Name	**Qualifications and Roles**	**Appointment period**
Colonel Mark Derry RICHARDS	DipMgt, MDefStud, FAICD, MIPAA, MAMI, psc *(Chairman of the Board and Chairman of the Executive Committee)*	Initially elected to the Board on 6 November 2001. Most recently re-elected to the Board on 22 November 2010.
Colonel Paul MULRANEY, CSC, Ret'd	BCom, MSc (Def Studies), CPA, MAICD, FAIM, MAMI, psc *(Deputy Chairman of the Board and Chairman of the Remuneration Committee)*	Initially elected to the Board on 23 November 1998. Most recently re-elected to the Board on 22 November 2010.
Group Captain David Cyril PAYNE, Ret'd	BEc (ANU), MSc (USAFIT), GradDipStratStud, Dip Tpt, FAICD, FAMI, jssc, psc *(Chairman of Policy and Constitution Review Committee (PCRC))*	Initially appointed to the Board on 6 May 1988. Most recently re-appointed to the Board on 26 September 2011.
Mr Alan Ronald HANDS	DipBus (Acct), DipPur/MM, M Bus (LOG), CPA, MAICD, AFAMI *(Chairman of the Audit, Risk and Compliance Committee (ARCC))*	Initially elected to the Board on 22 November 1993. Most recently re-elected to the Board on 22 November 2010.
Group Captain Callum Soutar BROWN	BA, MBA, DBA, MDefStud, FAICD, AFAIM, MAHRI, MAMI, psc	Initially elected to the Board on 25 November 1996. Most recently re-elected to the Board on 23 November 2009.
Lieutenant Colonel Craig Duncan MADDEN	BA, MMgt, DipMilEng, FAICD, MAMI, psc *(Board Proctor)*	Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 28 November 2011.
Ms Frances Helen RAYMOND	BCom, MBA, FCA, AFAIM, FAICD, MAMI, GDPPM	Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 28 November 2011.
Major-General Michael Peter John O'BRIEN, Ret'd	MDA, BSc (Mil), AdvDipProjMgt, DipMilStud, FAICD, FAMI, psc, qtc, acdss	Initially elected to the Board on 24 June 1985. Most recently re-elected to the Board on 23 November 2009. Retired from the Board 26 September 2011.
Mr Bruce Andrew MURPHY	BSc, MCom, PGD, CAIA	Appointed to the Board on 5 May 2012.

Directors' report

Information about the company secretaries

The names and particulars of the secretaries of the Bank during or since the end of the financial year are as follows:

Name	Qualifications and Roles	Appointment period
Jon Michael Linehan	BEc(Hons), MCom, LLB, FAICD, MAMI, SA Fin *(Chief Executive Officer)*	Appointed 18 September 2006.
Dean John Barton	BCom, F Fin, CPA *(Chief Financial Officer)*	Appointed 23 September 2011.
Henry Frederick Pashley	BBus, CA, MAMI *(Executive Manager - Finance)*	Appointed 13 October 2008. Resigned 23 September 2011.

Directors' meetings

The number of Board and Committee meetings during the year attended by each director were as follows:

Directors	Board		Committees									
			ARCC		Executive		Nominations		Remuneration		PCRC	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
M D Richards (1)	11	11	8	7	6	6	-	-	2	2	-	-
P Mulraney	11	11	8	8	6	6	1	1	3	3	-	-
D C Payne	8	8	3	2	-	-	-	-	-	-	2	2
A R Hands	11	11	8	8	-	-	-	-	2	2	-	-
C S Brown (2)	11	11	5	4	5	5	-	-	1	1	-	-
C D Madden	11	11	-	-	5	5	-	-	1	1	2	2
F H Raymond	11	11	8	8	-	-	-	-	-	-	-	-
M P J O'Brien	3	3	-	-	-	-	-	-	-	-	-	-
B A Murphy	2	2	-	-	-	-	-	-	-	-	-	-

(1) M D Richards was a member of the ARCC until 26 November 2011 and attended 4 of 4 meetings as a committee member during this period. M D Richards acted as Chairman of the Board from 27 November 2011 and attended 3 of 4 ARCC meetings during the period to 30 June 2012 as an observer.

(2) C S Brown acted as Chairman of the Board until 26 November 2011 and attended 4 of 5 ARCC meetings during this period as an observer.

Principal activities

The principal activities of the Bank during the financial year were the raising of funds and the application of those funds in providing financial accommodation to its members.

Significant changes in the state of affairs

During the financial year the Bank received approval from the Australian Prudential Regulation Authority (APRA) to use the designation "Bank". With effect from 1 February 2012 the company changed its name to Defence Bank Limited and trades under the name Defence Bank.

Review of operations

Operating profit

During the financial year the Bank earned a net profit of $10,494,000 (2011: $11,746,000) after providing $4,184,000 (2011: $4,685,000) for income tax expense.

Review of operations (continued)

Deposit and lending growth

During the financial year the Bank grew deposits and lending as follows:

	2012 $000	2011 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	1,285,682	1,198,782	86,900	7.2
Total deposits	1,098,151	1,012,216	85,935	8.5
Total equity	113,075	102,581	10,494	10.2
Members loans	970,280	915,938	54,342	5.9
Securitised housing loans (off balance sheet)	65,410	79,215	(13,805)	(17.4)
Total loans (on and off balance sheet)	1,035,690	995,153	40,537	4.1

Branch network

Defence Bank remains committed to providing excellent service to its members through its 44 branches, the largest branch network in the ADF. Throughout the year the Bank hase been busy refreshing all of its branches around Australia as part of the Defence Bank rebranding process.

Products and services

Enhancing the delivery of products and services to members was once again a key focus during the 2011/12 year. The Bank introduced new technology solutions such as mobile banking and improved access to banking services through the extension of Contact Centre hours to 8am to 8pm, Monday to Friday allowing members to talk to a Defence Bank staff member wherever they are located.

The Bank maintained its commitment to continuous product improvement with the introduction of a number of new products during the year including a new low-cost everyday account, Salary Saver and a new Defence Home Ownership Assistance Scheme (DHOAS) loan product, DHOAS Saver.

In addition to the development of new products the Bank continues to ensure that existing products represent value for members with four of the Bank's products having received 5 Star ratings from Cannex. The iSaver Account, Personal Loans, Car Loans and Credit Cards were all awarded a 5 star rating by Cannex.

The Defence Bank Retirement Savings Account (RSA) also received an award during the past year, winning the 2011/12 Abacus Innovation Award. The Bank has continued to successfully promote this product through SBS, Foxtel and major Defence publications. The RSA has proven to be very popular with significant growth in funds under administration making it one of the largest RSA products offered by a mutual financial organisation in Australia.

Planning

The board of directors and executive managers met in March 2012 to consider the issues critical to the continued growth and development of the Bank. The Board and executive managers are aware of their obligation to ensure that the Bank provides both relevant and convenient service and products to our members and that any risks associated with the operations of the business are mitigated as appropriate. This planning process is reinforced throughout the year by regular reviews of achievements against the strategic plan.

Likely developments and expected results

The Bank's objectives over the next and subsequent financial years will be to continue to improve service to members and to achieve growth in appropriate areas of operations. With regard to products and services, management regularly reviews all existing and available products, services and delivery mechanisms to ensure that they meet the existing and future needs of members.

Directors' report

Subsequent events

Since the end of the financial year, the directors have not become aware of any matters or circumstances that may significantly affect the operations, results of those operations, or the state of affairs, of the Bank.

Dividends

It is not the policy of the board to recommend a dividend and no dividends were declared or payable during the reporting period.

Contracts in which directors have an interest

Since 1 July 2011, no director has received or become entitled to any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by directors and shown in the accounts) from a contract between the Bank and themselves, their firm or a company in which they have a substantial interest.

Directors, officers and auditors' indemnity

The Bank's Constitution (Clause 17.3) permits the Bank to indemnify each officer of the Bank against certain liabilities incurred in the execution and discharge of the officer's duties. The Corporations Act 2001 (Section 199A) restricts the Bank from providing indemnity against certain liabilities that officers incur while acting in their positions. The indemnity that the Bank provides for its officers is consistent with the requirements of the Act. The Bank's ability to indemnify extends to all directors, secretaries, executive officers and employees. During the financial year the Bank has paid the premium for an insurance policy for directors and officers, for the benefit of the Bank. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium. In the event of there being a claim against this insurance policy, the Bank would meet the costs and expenses incurred in defending such proceedings on behalf of the eligible person(s), up to the excess amount specified in the policy, where such action was compatible with the requirements of the Corporations Act 2001.

Auditor's independence

A copy of the external auditor's independence declaration, as required under Section 307c of the Corporations Act 2001, is provided on page 36.

Rounding of amounts

The Bank is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998. In accordance with that Class Order, amounts in the directors' report and the financial statements are rounded to the nearest thousand dollars, unless otherwise indicated.

Board resolution

This report is signed in accordance with a formal resolution of the board of directors.

M D Richards Director 23 September 2012	P Mulraney Director 23 September 2012

Statement of comprehensive income

for the financial year ended 30 June 2012

	Notes	2012 $000	2011 $000
Income			
Interest income	4	87,099	82,842
Interest expense	4	(50,614)	(46,162)
Net interest income		36,485	36,680
Other income	5	13,578	13,038
		50,063	49,718
Expenses			
Employee benefits expense	5	17,359	16,029
Depreciation and amortisation expense	5	1,218	959
Impairment losses on loans and advances	12	487	489
Other expenses	5	16,321	15,810
		35,385	33,287
Profit before income tax		14,678	16,431
Income tax expense	6	4,184	4,685
Profit for the year from continuing operations		10,494	11,746
Other comprehensive income		-	-
Total comprehensive income		10,494	11,746

The accompanying notes form part of these financial statements.

Statement of financial position

for the financial year ended 30 June 2012

	Notes	2012 $000	2011 $000
Assets			
Cash and cash equivalents	8	43,682	94,612
Investments	9	261,121	177,245
Financial assets available for sale	10	1,639	1,626
Trade and other receivables	11	2,957	3,622
Loans and advances	12	970,280	915,938
Property, plant and equipment	13	2,953	2,302
Current tax assets	14	102	-
Deferred tax assets	15	1,821	2,181
Intangible assets	16	454	529
Other assets	17	673	727
		1,285,682	1,198,782
Liabilities			
Borrowings	18	55,000	62,265
Deposits	19	1,098,151	1,012,216
Trade and other payables	20	15,575	15,951
Current tax liabilities	21	-	2,224
Provisions	22	3,881	3,545
		1,172,607	1,096,201
Net Assets		113,075	102,581
Equity			
Share capital	23	772	719
Reserves	24	112,303	101,862
Retained earnings	25	-	-
		113,075	102,581

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the financial year ended 30 June 2012

	2012 $000	2011 $000
Share capital		
Balance at the beginning of the financial year	719	629
Transfer on redemption of redeemable member shares	53	90
Balance at the end of the financial year	772	719
General reserve for credit losses		
Balance at the beginning of the financial year	2,565	2,565
Balance at the end of the financial year	2,565	2,565
General reserve		
Balance at the beginning of the financial year	99,297	87,641
Transfers from retained earnings	10,441	11,656
Balance at the end of the financial year	109,738	99,297
Retained earnings		
Balance at the beginning of the financial year	-	-
Profit for period	10,494	11,746
Transferred to share capital	(53)	(90)
Transferred to general reserve	(10,441)	(11,656)
Balance at the end of the financial year	-	-
Total equity	113,075	102,581

The accompanying notes form part of these financial statements.

Statement of cash flows

for the financial year ended 30 June 2012

	Notes	2012 $000	2011 $000
Cash flows from operating activities			
Interest received		88,061	82,094
Fees and commissions received		13,088	11,477
Other income received		608	-
Dividends received		356	935
Recoveries on loans previously written off		246	285
Interest paid		(50,054)	(41,802)
Payments to suppliers and employees		(34,892)	(30,761)
Income tax paid		(6,150)	(4,442)
Goods and services tax refunded		206	-
Cash flows from operating activities before changes in operating assets and liabilities		11,469	17,786
Net increase in investments		(83,876)	(12,606)
Net increase in loans and advances		(54,829)	(89,240)
Net increase in deposits		85,399	143,394
Net cash (used in) / provided by operating activities	26	(41,837)	59,334
Cash flows from investing activities			
Proceeds on disposal of plant and equipment		14	-
Purchases of plant and equipment		(1,461)	(2,010)
Purchases of intangible assets		(381)	-
Net cash used in investing activities		(1,828)	(2,010)
Cash flows from financing activities			
Net (decrease) / increase in borrowings		(7,265)	7,836
Net (decrease) / increase in cash and cash equivalents		(50,930)	65,160
Cash and cash equivalents at the beginning of the financial year		94,612	29,452
Cash and cash equivalents at the end of the financial year	8	43,682	94,612

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2012

In the notes that form part of the financial statements, a number of abbreviations are used. These abbreviations mean the following:

AASB means the Australian Accounting Standards Board.
ADI means Authorised Deposit-taking Institution.
APRA means the Australian Prudential Regulation Authority.
ASX means the Australian Stock Exchange.
CUFSS means the Credit Union Financial Support Scheme.
Cuscal means the Credit Union Services Corporation (Australia) Limited.
Integris means Integris Securitisation Service Pty Ltd.
KMP means Key Management Personnel as detailed in AASB 124.

1. General information

Defence Bank Limited (Defence Bank or "the Bank") is a limited company incorporated in Australia. The address of its registered office and principal place of business are disclosed at the end of this annual financial report.

2. Application of new and revised accounting standards

This financial report has been prepared in accordance with all Australian Accounting Standards, International Financial Reporting Standards and AASB Accounting Interpretations. The expected impact of Accounting Standards issued but not yet operative at 30 June 2012 have been assessed as having no material impact.

3. Significant accounting policies

Statement of compliance
The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of law. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes to the financial statements comply with International Financial Reporting Standards (IFRS). The financial statements were authorised for issue by the Directors on 23 September 2012.

Basis of preparation
This financial report has been prepared on an accruals basis and is based on historical costs modified for those financial assets and financial liabilities for which the fair value basis of accounting has been applied. Except where specifically stated, the accounting policies have been consistently applied.

The Bank is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998. In accordance with that Class Order, amounts in the directors' report and the financial statements are rounded to the nearest thousand dollars, unless otherwise indicated.

Comparative amounts
Comparative figures have been reclassified where required to to accord with changes in presentation of current year financial figures, except where indicated.

Property, plant and equipment
Property, plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation or amortisation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by management to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets’ employment and their subsequent disposal. The depreciable amount of all property, plant and equipment, including buildings and leasehold improvements, is depreciated over their effective life, commencing from the time the asset is held ready for use or over the unexpired period of the lease, whichever is shorter.

3. Significant accounting policies (continued)

Depreciation
Depreciation is calculated on the straight line method and rates are based on the effective life of the asset. The following rates were used:

Portable Buildings	18.0%
Plant and equipment	
Office equipment	2.5% - 33.3%
Office furniture	5.0% - 33.3%
Motor vehicles	20.0%

Leasehold improvements are amortised over the unexpired term of the lease.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

Amortisation
Software licences or computer software that is not an integral part of the related hardware are classified as intangible assets and their costs are amortised over the estimated useful life of the software.

Bad and doubtful debts
Loan accounts are submitted to the Board for write-off where any of the following circumstances apply:

- The member is a bankrupt or has executed an arrangement under Part IX or Part X of the Bankruptcy Act 1966 and Defence Bank is unlikely to receive sufficient funds to satisfy the debt.
- The member's whereabouts are unknown and all reasonable efforts to locate the member have been to no avail.
- There is reason to believe by virtue of unemployment or adverse credit, on an objective basis, that recovery of the debt is unlikely.
- Legal action has been undertaken and, with an objective view, there is little likelihood of the debt being recovered.

Impairment - loans and advances to members
All loans are subject to continuous management review to assess whether there is any objective evidence that a loan or group of loans is impaired.

The amount provided for the impairment of loans is determined by the board and management. The board makes a provision for loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. The Prudential Standards issued by APRA prescribe the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time that payments have been in arrears and the security held. This approach has been adopted by the Bank whereby bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are recognised as expenses in the statement of comprehensive income.

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

- Non-accrual loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, hence provisions for impairment are recognised.
- Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in Non-Accrual Loans when impairment provisions are required.
- Past-due loans are loans where payments of principal or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If an impairment is incurred, the loan is included in non-accrual loans.

3. Significant accounting policies (continued)

Impairment - loans and advances to members (continued)
Interest on term loans and overdrafts is calculated on the daily balance outstanding and is charged in arrears to a member's account on a monthly basis. No interest is brought to income on loans where the relevant account is the subject of legal action, or where the borrower is deceased, or where the borrower has filed a petition under the Bankruptcy Act 1966.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loans portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Securitisation
The Bank has an agreement with Integris, a wholly owned subsidiary of Cuscal, to place securitised home loans with Perpetual Trustee Company Limited. These loans are off-balance sheet mortgage products and are subject to mortgage insurance. The contractual arrangements of the securitisation programme meet the criteria for transferring assets off balance sheet. The only circumstances in which the Bank could be liable would be in the event of failure by the Bank to adhere to key terms of the agreement between Integris, Perpetual Trustees and the Bank.

Members' deposits
Members' deposits are brought to account at the aggregate amount owing to depositors. Interest on deposits is brought to account on an accrual basis in accordance with the interest rate terms and conditions applicable to each account. The amount of the accrual is shown separately in the accounts (refer to Note 19).

Employees' benefits
Provision is made for employees' entitlement benefits accumulated as a result of employees rendering services up to 30 June 2012, in accordance with Accounting Standards AASB 119 Employee Benefits. These benefits include wages and salaries, annual leave, long service leave and sick leave, if applicable. In addition, the Bank has an employees' retirement scheme, for some employees, based on years of service. The amount charged against profit for the year for the retirement scheme was $37,000 ($24,435 – 2011).

Non-vested sick leave is not expected to exceed current and future sick leave entitlements. Accordingly, no provision is made for the liability.

Employees' benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employees' benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

Income tax
The charge for current income tax expense is based on the operating profit for the year adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in financial statements. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly into equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account, or which may be realised in the future, is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Bank will derive sufficient future assessable income to enable the benefit to be realised in compliance with the conditions of deductibility imposed by the law.

3. Significant accounting policies (continued)

Income recognition
Interest income is recognised on an accrual basis. Fee and commission income is generally recognised on an accrual basis. However, commission income for Loan Repayment Insurance (LRI) is deferred and recognised on a straight-line basis over a twelve month period reflecting the average life of a LRI policy. The liability 'Unearned Commissions' is detailed in Note 20 to the accounts.

Dividend and distribution revenue are recognised when the right to receive a dividend or distribution has been established.

Investment interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue arising from the disposal of other assets is recognised when the entity and the buyer are both committed to a contract.

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 is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or expense.

4. Interest income and interest expense

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest income or expense and the average interest rate. Averages are monthly averages.

	2012		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	73,447	3,085	4.20
Investments	179,849	9,958	5.54
Loans and advances	939,246	74,056	7.88
		87,099	7.30
Interest bearing liabilities			
Borrowings	56,739	3,522	6.21
Deposits	1,019,853	47,092	4.62
		50,614	4.70
Net interest income		36,485	

	2011		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	41,502	1,963	4.73
Investments	183,396	9,921	5.41
Loans and advances	877,146	70,958	8.09
		82,842	7.52
Interest bearing liabilities			
Borrowings	87,739	5,275	6.01
Deposits	906,865	40,887	4.51
		46,162	4.64
Net interest income		36,680	

5. Income and expense

	2012 $000	2011 $000
Included in the profit from continuing operations are the following items of income and expense:		
Other income		
Dividends	356	935
Loan fee income	1,252	1,013
Other fee income	6,701	6,515
Insurance commissions	1,761	1,652
Other commissions	2,644	2,617
Gain on disposal of plant and equipment	10	-
Bad debts recovered	246	285
Other income	608	21
	13,578	13,038
Employee benefits expense		
Personnel costs	16,641	15,202
Provision for employee benefits	718	827
	17,359	16,029
Depreciation and amortisation expense		
Plant and equipment	584	511
Buildings and leasehold improvements	178	34
Computer software	456	414
	1,218	959
Other expenses		
Loss on disposal of plant and equipment	45	41
Rental - operating leases	1,067	1,205
Occupancy expenses	358	173
Information technology expenses	3,273	3,187
External financial transaction processing fees and charges	4,498	4,902
Telephone expenses	400	390
Repairs and maintenance	10	89
Administration	3,841	3,801
Marketing and promotion	1,411	1,003
Other expenses from ordinary activities	1,418	1,019
	16,321	15,810

6. Income tax

	2012 $000	2011 $000
Income tax recognised in profit or loss:		
Current tax expense in respect of current year	4,337	4,810
Adjustments recognised in the current year in relation to current tax of prior years	(128)	-
Deferred tax income relating to the origination and reversal of temporary differences	(25)	(125)
Tax expense	4,184	4,685

The income tax expense for the year can be reconciled to profit before income tax as follows:

	2012 $000	2011 $000
Profit before income tax	14,678	16,431
Income tax calculated at 30% (2011: 30%)	4,403	4,929
Effect of expenses that are not deductible in determining taxable profit	15	37
Effect of other income that is assessable in determining taxable profit	45	120
Effect of imputation credits	(151)	(401)
Adjustments recognised in the current year in relation to current tax of prior years	(128)	-
Tax expense	4,184	4,685

7. Franking credits balance

The amount of franking credits available for the subsequent financial year are as follows:

	2012 $000	2011 $000
Franking account balance as at the end of the financial year at 30%	45,018	38,716
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	102	2,224
	45,120	40,940

Since, under corporations and tax laws, the Bank may only pay a dividend on shares to which a right to participate in dividends attaches, these franking credits are not presently available to members.

8. Cash and cash equivalents

	2012 $000	2011 $000
Cash on hand	2,557	2,508
Call deposit with ADIs	41,125	92,104
	43,682	94,612

9. Investments

	2012 $000	2011 $000
At amortised cost:		
Term deposits with ADIs	40,384	68,072
Negotiable certificates of deposit	220,737	109,173
	261,121	177,245
Maturity analysis:		
Not longer than 1 year	261,121	177,245
	261,121	177,245

10. Financial assets available for sale

Unlisted commercial shares with Cuscal at cost	1,639	1,626

11. Trade and other receivables

Interest receivable on investments	1,847	2,809
Trade debtors	1,110	813
	2,957	3,622

12. Loans and advances

Overdrafts	8,312	8,798
Credit cards	15,248	14,889
Term loans	947,274	892,830
Gross loans and advances	970,834	916,517
Specific provision for impairment	(554)	(579)
Net loans and advances	970,280	915,938
Maturity analysis:		
Overdrafts	12,500	13,429
Not longer than 1 year	71,155	73,207
Longer than 1 and not longer than 5 years	226,791	229,289
Longer than 5 years	659,834	600,013
	970,280	915,938

12. Loans and advances (continued)

	2012 $000	2011 $000
Provision for impairment:		
Balance at the beginning of the financial year	579	680
Increase in provision for impairment of loans and advances	487	489
Bad debts written off	(512)	(590)
Balance at the end of the financial year	554	579

Concentration of credit risk:
There are no loans which represent 10% or more of equity. Furthermore, there is no significant concentration of credit risk due to the nature of operating throughout Australia and the type of membership base and bond.

13. Property, plant and equipment

	2012 $000	2011 $000
Portable buildings on leasehold land		
At cost	214	214
Accumulated depreciation	(214)	(214)
	-	-
Leasehold improvements		
At cost	1,617	440
Accumulated depreciation	(316)	(332)
	1,301	108
Plant and equipment		
At cost	7,758	7,165
Accumulated depreciation	(6,106)	(5,973)
	1,652	1,192
Work in progress		
At cost	-	1,002
Property, plant and equipment		
At cost	9,589	8,821
Accumulated depreciation	(6,636)	(6,519)
	2,953	2,302

13. Property, plant and equipment (continued)

Reconciliation of carrying amount of property, plant and equipment:

	2012			
	Leasehold Improvements $000	Plant and Equipment $000	Work in Progress $000	Total $000
Balance at the beginning of the financial year	108	1,192	1,002	2,302
Additions and reclassifications	1,408	1,055	(1,002)	1,461
Disposals	(37)	(11)	-	(48)
Depreciation expense	(178)	(584)	-	(762)
Balance at the end of the financial year	1,301	1,652	-	2,953

	2011			
	Leasehold Improvements $000	Plant and Equipment $000	Work in Progress $000	Total $000
Balance at the beginning of the financial year	39	1,428	-	1,467
Additions and reclassifications	108	318	1,002	1,428
Disposals	(5)	(43)	-	(48)
Depreciation expense	(34)	(511)	-	(545)
Balance at the end of the financial year	108	1,192	1,002	2,302

14. Current tax assets

	2012 $000	2011 $000
Current tax asset	102	-

15. Deferred tax assets

	2012 $000	2011 $000
Temporary differences:		
Provisions for employee benefits not yet deductible	1,158	1,064
Provision for impairment on loans not yet deductible	166	174
Prior year bad debts not yet deductible	131	514
Depreciation	172	369
Accrued income not yet earned	202	24
Accrued expenses not yet deductible	86	36
Prepayments	(94)	-
Net deferred tax assets	1,821	2,181

15. Deferred tax assets (continued)

	2012 $000	2011 $000
The movement in deferred tax assets / liabilities for each temporary difference during the year is as follows:		
Provision for impairment on loans not yet deductible:		
Balance at the beginning of the financial year	174	204
Recognised in profit or loss	(8)	(30)
Balance at the end of the financial year	166	174
Prior year bad debts not yet deductible:		
Balance at the beginning of the financial year	514	462
Recognised in profit or loss	(383)	52
Balance at the end of the financial year	131	514
Depreciation:		
Balance at the beginning of the financial year	369	373
Recognised in profit or loss	(197)	(4)
Balance at the end of the financial year	172	369
Accrued income not yet earned:		
Balance at the beginning of the financial year	24	25
Recognised in profit or loss	178	(1)
Balance at the end of the financial year	202	24
Accrued expenses not yet deductible:		
Balance at the beginning of the financial year	36	45
Recognised in profit or loss	50	(9)
Balance at the end of the financial year	86	36
Provisions for employee benefits not yet deductible:		
Balance at the beginning of the financial year	1,064	946
Recognised in profit or loss	94	118
Balance at the end of the financial year	1,158	1,064
Prepayments:		
Balance at the beginning of the financial year	-	-
Recognised in profit or loss	(94)	-
Balance at the end of the financial year	(94)	-

16. Intangible assets

	2012 $000	2011 $000
Computer software:		
At cost	3,140	2,557
Accumulated amortisation	(2,686)	(2,028)
Balance at the end of the financial year	454	529
Reconciliation of the carrying amount of intangible assets:		
Balance at the beginning of the financial year	529	353
Additions and reclassifications	381	590
Amortisation expense	(456)	(414)
Balance at the end of the financial year	454	529

17. Other assets

	2012 $000	2011 $000
Prepayments	673	727

18. Short term borrowings

Unsecured loans	-	7,265
Secured loans	55,000	55,000
	55,000	62,265

The borrowings above represent secured term loans from Cuscal (refer Note 28) and unsecured term loans from the Total Portfolio Service which is owned by Australian Wealth Management Limited. Loans are at fixed interest rates with a range of maturity dates for periods up to twelve months.

19. Deposits

Members' redeemable preference shares	758	863
Call deposits	415,423	382,876
Term deposits	681,970	628,477
	1,098,151	1,012,216
Maturity analysis:		
At call	416,181	383,739
Not longer than 12 months	675,234	618,360
Longer than 1 and not longer than 5 years	6,736	10,117
	1,098,151	1,012,216

Concentration of deposits:
There are no depositors whose deposits represent 10% or more of total liabilities. Furthermore, there is no significant concentration of deposit risk due to the nature of operating throughout Australia and the type of membership base and bond.

20. Trade and other payables

Trade creditors	741	1,945
Interest payable	13,100	12,540
Accrued expenses	1,059	1,384
Unearned commissions	83	82
Unamortised lease incentive	592	-
	15,575	15,951

21. Current tax liabilities

Current income tax payable	-	2,224

22. Provisions

	2012 $000	2011 $000
Provision for employee entitlements	3,862	3,545
Other provisions	19	-
	3,881	3,545

Provisions are expected to be settled within one year with the exception of those provisions for employee entitlements related to long service leave and accrued sick leave which amount to $2,349,000 (2011: $2,078,000)

23. Share capital

Balance at the beginning of the financial year	719	629
Transfer on redemption of redeemable preference shares	53	90
Balance at the end of the financial year	772	719

24. Reserves

The General Reserve is an equity account, which comprises the aggregate amount of all retained profits from ordinary activities after income tax since the Bank's inception, less the aggregate amount relating to the redemption of redeemable preference shares. Its purpose is to illustrate that, in a mutual organisation, these amounts are not available for distribution as dividends and that the reserve clearly represents members' equity in the Bank.

Additional provision for future losses, general banking risks and contingent impairment of assets, required to be set aside by Prudential Standards, are held in a General Reserve for Credit Losses. Additional information is provided at Note 3.

25. Retained earnings

Profit from continuing operations after income tax	10,494	11,746
Transfers to share capital upon redemption of redeemable preference shares	(53)	(90)
Transfers to general reserve	(10,441)	(11,656)
Retained earnings at the end of the financial year	-	-

Notes to the financial statements

for the financial year ended 30 June 2012

26. Note to the statement of cash flows

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and call deposits with ADIs.

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

	2012 $000	2011 $000
Cash on hand	2,557	2,508
Call deposits with ADIs	41,125	92,104
	43,682	94,612

Profit after tax from continuing operations can be reconciled to net cash flows from operating activities as follows:

	2012 $000	2011 $000
Profit after tax from continuing operations	10,494	11,746
Impairment of loans and advances	487	489
Depreciation and amortisation	1,218	959
Gain on disposal of equipment	(10)	-
Loss on disposal of equipment	45	41
Increase in interest payable	560	4,361
Decrease / (increase) in interest receivable	962	(748)
Decrease / (increase) in deferred tax assets	360	(125)
Increase in trade debtors	(297)	(30)
Decrease / (increase) in prepaid expenses	54	(445)
(Decrease) / increase in income tax payable	(2,326)	368
Increase in provision for employee benefits	317	392
Increase in other provision	19	-
(Decrease) / increase in trade creditors	(1,204)	781
Decrease in accrued expenses	(325)	-
Increase in unamortised lease incentive	592	-
Increase in investments	(83,876)	(12,606)
Increase in loans	(54,956)	(88,953)
Decrease in overdraft balances	486	948
Increase in credit card balances	(359)	(1,235)
Decrease in members redeemable preference shares	(105)	(28)
Increase in call deposits	32,534	26,492
Increase in term deposits	53,493	116,927
Net cash (used in) / provided by operating activities	(41,837)	59,334

27. Expenditure commitments

Operating lease arrangements

The Bank entered into a property lease for its new head office at 31 Queen Street, Melbourne, covering the period to 30 June 2021 with no option for a further term. The rent for the term has been agreed and the lease allows for an increase in rent of the greater of CPI or 4% for each year. Other property leases are generally for periods from three to five years with an option to renew the lease at the end of the term. Rent is either fixed for the period, or subject to agreed escalation clauses and is payable monthly in advance.

Further leasing arrangements are for the Bank's core banking, facilities management and associated support services as well as printers and multi-function office equipment. Lease fees are payable monthly and may be increased annually based on CPI increases or any increase in the direct cost of supplies from third parties.

	2012 $000	**2011 $000**
Not later than 1 year	3,105	2,916
Later than 1 and not later than 5 years	5,853	6,041
Later than 5 years	3,635	4,455
Aggregate expenditure contracted for at the end of the financial year	12,593	13,412

Outstanding loan commitments

Generally, there are no restrictions to withdrawal of funds within undrawn credit commitments, provided contractual repayments are maintained. Many of the commitments included below are expected to expire without being drawn upon.

	2012	2011
Loans approved but not funded	51,379	56,453
Total undrawn balances of all credit cards and overdrafts	40,795	47,889
	92,174	104,342

28. Registered charge

Cuscal holds a fixed and floating charge over the Bank's assets and future undertakings for loan facilities available to the Bank. The amount outstanding under this charge as at 30 June 2012 is $55 million (2011: $55 million).

29. Contingent liabilities

CUFSS

With effect from 1 July 1999, the Bank is a party to CUFSS, which is a voluntary scheme that all credit unions and mutual banks affiliated with Cuscal have agreed to participate in. CUFSS is a company limited by guarantee with each credit union or mutual bank's guarantee being $100.

As a member of CUFSS, the Bank:

a. may be required to advance loans of up to 3% (excluding permanent loans) of total assets to another credit union or mutual bank requiring financial support;
b. may be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union or mutual bank requiring financial support; and
c. agrees, in conjunction with other members, to fund the operating costs of CUFSS.

30. Securitisation arrangements

The Bank has an arrangement with Integris whereby it acts as an agent to promote and complete loans on its behalf, for on-sale to an investment trust. The Bank also manages the loans portfolio on behalf of the trust. The Bank bears no credit risk exposure in respect of these loans. The balance of securitised loans as at 30 June 2012 was $65,410,000 (2011: $79,215,000).

31. Remuneration of auditors

	2012 $	2011 $
Audit or review of accounts	125,345	123,860
Taxation compliance	5,445	-
Other services	5,885	8,360
	136,675	132,220

32. Key management personnel

Details of key management personnel

The key management personnel of the Bank comprises the board, the Chief Executive Officer and the executive management team. The directors and other members of key management personnel during the year were:

M D Richards	Director, Chairman of the Board and Chairman of the Executive Committee
P Mulraney	Director, Deputy Chairman of the Board and Chairman of the Remuneration Committee
D C Payne	Director and Chairman of the Policy Review and Constitution Committee
A Hands	Director and Chairman of Audit Risk and Compliance Committee
C S Brown	Director
C D Madden	Director
F H Raymond	Director
M P J O'Brien	Director (Resigned 26 September 2011)
B A Murphy	Director (Appointed 5 May 2012)
J M Linehan	Chief Executive Officer and Company Secretary
D J Barton	Chief Financial Officer (appointed 22 August 2011) and Company Secretary (appointed 23 September 2011)
I Brown	Chief Information Officer
H F Pashley	Executive Manager - Finance (Resigned 23 September 2011)
G Prout	Executive Manager - Retail Services
A Sciberras	Executive Manager - Lending
K Bugeja	Executive Manager - Human Resources
L Kyle	Executive Manager - Marketing

32. Key management personnel (continued)

Compensation of key management personnel
The aggregate compensation made to directors and other members of the key management personnel of the Bank is as set out below:

	2012 $	2011 $
Directors remuneration:		
Short-term employee benefits	421,710	359,787
CEO and executive management remuneration:		
Short-term employee benefits	2,178,039	1,948,616
Other long-term benefits	81,314	232,539
Termination benefits	126,437	18,570
	2,385,790	2,199,725
Total key management personnel remuneration:		
Short-term employee benefits	2,599,749	2,308,403
Other long-term benefits	81,314	232,539
Termination benefits	126,437	18,570
	2,807,500	2,559,512

Loans to key management personnel and close family members
Included in total loans and advances are loans outstanding to key management personnel and their close family members. The amounts included are:

	2012 $	2011 $
Mortgage loans	2,288,203	1,748,565
Personal loans	39,514	68,296
Credit card and overdraft facilities	38,063	10,820

During the financial year, new loans or limits advanced to key management personnel and their close family members amounted to:

	2012 $	2011 $
Mortgage loans	75,000	-
Personal loans	10,000	-
Credit card and overdraft facilities	50,000	-

Repayments against loans to key management personnel and their close family members amounted to:

	2012 $	2011 $
Mortgage loans	264,308	153,311
Personal loans	9,197	40,473

All loans between key management personnel or their close family members and the Bank were conducted on normal commercial terms.

Deposits by key management personnel and their close family members
The deposit balances as at the end of the financial year attributable to key management personnel and their close family members amounted to:

	2012 $	2011 $
Total deposits	1,260,628	1,271,194

All deposit transactions between key management personnel or their close family members and the Bank were conducted on normal commercial terms.

Notes to the financial statements

for the financial year ended 30 June 2012

33. Segment reporting

The Bank operates predominantly in one business being the acceptance of deposits and the making of loans to members throughout Australia.

34. Financial instruments

	2012 $000	2011 $000
Categories of financial instruments		
Financial assets		
Cash on hand and on deposit	43,682	94,612
Loans and receivables at amortised cost:		
Investments	261,121	177,245
Trade and other receivables	2,957	3,622
Loans and advances	970,280	915,938
Available-for-sale financial assets:		
Financial assets available for sale	1,639	1,626
	1,279,679	1,193,043
Financial liabilities		
At amortised cost:		
Borrowings	55,000	62,265
Deposits	1,098,151	1,012,216
Trade and other payables	15,575	15,951
	1,168,726	1,090,432

Financial risk management objectives
The bank is exposed to a number of risks arising from the use of financial instruments in the normal course of its operations. These risks primarily include market risk, credit risk and liquidity risk.

The bank seeks to manage these risks through a series of internal risk reports which analyse exposures by degree and by magnitude of risk. Key measures which act as proxies for the specific risks are tracked against pre-established thresholds set by the Board as part of its overarching risk management policy. Compliance with policy and exposure limits is reviewed by the internal auditors on an ongoing basis.

Market risk
Market risk is the risk of changes in market prices affecting the Bank's income or the value of positions held by the bank. As the Bank does not deal in foreign contracts, commodities or equity securities, market risk consists solely of interest rate risk. Interest rate risk is defined as the risk of change in the fair value of future cash flows arising from financial instruments due to variability in interest rates. The Bank is exposed to interest rate risk as a result of mismatches between the repricing dates of financial assets and liabilities.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters, while optimising return. To this end the Board has in place a comprehensive market risk policy which establishes a methodology for the calculation, examination and reporting of the interest rate risk position on a regular basis. Management of interest rate risk is vested in the Asset, Liability and Liquidity Committee. The Committee meets at least monthly to review the interest rate risk position and takes decisions to mitigate identified market risks. Action taken by the Committee is reported to the Board.

The Bank does not enter into, or trade in, financial instruments for speculative purposes and as such the interest rate risk the Bank is exposed to arises only from activities within its banking book.

There has been no material change to the Bank's exposure to interest rate risk, or the manner in which these risks are managed and measured, over the financial year.

34. Financial instruments (continued)

Interest rate sensitivity analysis
The sensitivity analysis below has been prepared assuming the balance of floating rate assets and liabilities outstanding at the end of the financial year were outstanding for the whole financial year. A change of 100 basis points in interest rates is used in the analysis as this represents management's assessment of the reasonable possible change in interest rates. A 100 basis point increase in interest rates compared to actual rates would increase profit and equity by the following amounts. A 100 basis points decrease in interest rates would have an equal and opposite impact:

	2012 $000	2011 $000
Profit	3,714	3,879
Equity	3,714	3,879

Credit risk
Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk for the Bank can be segregated as follows:

Loans and advances
The risk of losses that may arise from loans advanced to members is mitigated by the careful application of loan assessment criteria designed to ensure capacity to pay and by the nature and quality of any collateral taken as security.

In the case of loans secured by a registered first mortgage, the Bank requires borrowers to obtain mortgage insurance to cover the total indebtedness to the Bank in situations where the loan to valuation ratio is more than 80%. This policy is only relaxed when there are particular mitigating circumstances.

The Bank has a concentration of credit risk by industry sector to the Defence community (serving and former serving members of the Australian Defence Force, Defence civilians, contractors and families of this bond). This concentration is considered to be acceptable on the grounds that the Bank was formed to secure the financial needs of these members and the employment concentration is not exclusive. Should members cease employment within the Australian Defence Force, the loans continue and other employment opportunities are available to the members to facilitate the repayment of loans.

Investments
The risk of losses arising from investments made as part of managing the Bank's liquid asset portfolio is mitigated by a series of policies that limit the counterparties with which the bank transacts to those with an investment grade rating and also limit the aggregate exposure to any one counterparty.

There have been no changes to the manner in which credit risk is managed during the financial year.

34. Financial instruments (continued)

Credit risk (continued)

The Bank's maximum exposures to credit risk at balance date in relation to each class of financial asset is the carrying amount of those assets as indicated below.

The following tables detail the credit quality of the Bank's financial assets as at 30 June:

	2012					
	Current and not impaired				Past due and / or impaired	Total
		Rated (Long term, Short term) [1]				
	Unrated $000	≥ AA-, A1 $000	≥ A-, A2 $000	≥ BBB-, A3 $000	$000	$000
Financial assets						
Cash on hand and on deposit	-	35,160	8,522	-	-	43,682
Loans and receivables at amortised cost:						
Investments	-	95,454	111,068	54,599	-	261,121
Trade and other receivables	2,957	-	-	-	-	2,957
Loans and advances	968,913	-	-	-	1,367	970,280
Available-for-sale financial assets:						
Financial assets available for sale	-	1,639	-	-	-	1,639
	971,870	132,253	119,590	54,599	1,367	1,279,679

	2011					
	Current and not impaired				Past due and / or impaired	Total
		Rated (Long term, Short term) [1]				
	Unrated $000	≥ AA-, A1 $000	≥ A-, A2 $000	≥ BBB-, A3 $000	$000	$000
Financial assets						
Cash on hand and on deposit	-	94,612	-	-	-	94,612
Loans and receivables at amortised cost:						
Investments	-	110,151	39,509	27,585	-	177,245
Trade and other receivables	3,622	-	-	-	-	3,622
Loans and advances	915,209	-	-	-	729	915,938
Available-for-sale financial assets:						
Financial assets available for sale	-	1,626	-	-	-	1,626
	918,831	206,389	39,509	27,585	729	1,193,043

(1) Ratings grades refer to Standard and Poors rating levels for long term and short term issuer ratings respectively. Where a counterparty is rated by an alternative ratings agency, its rating has been classified in line with the equivalent Standard and Poors rating.

34. Financial instruments (continued)

Credit risk (continued)

The following tables detail the delinquency of financial assets classified as past due and / or impaired as at 30 June:

	2012					
	Past due and not impaired			Past due and impaired		
	30 - 59 days $000	60 - 89 days $000	> 90 days $000	≤ 90 days $000	> 90 days $000	Total $000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	743	93	296	60	175	1,367
	743	93	296	60	175	1,367

	2011					
	Past due and not impaired			Past due and impaired		
	30 - 59 days $000	60 - 89 days $000	> 90 days $000	≤ 90 days $000	> 90 days $000	Total $000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	345	59	-	53	272	729
	345	59	-	53	272	729

Liquidity risk

Liquidity risk is the risk that the Bank may experience difficulties in raising funds to meet its commitments. The objective of liquidity risk management is to ensure that the Bank always has sufficient liquidity to meet its liabilities under normal and stressed market conditions.

The Bank manages liquidity risk primarily through adherence to Board policies that require the Bank to maintain a minimum of 14% of adjusted liabilities as liquid assets at all times. This policy also sets out various trigger levels and the required course of action should the liquidity ratio fall below these levels.

The Asset, Liability and Liquidity Committee meets regularly to consider the liquidity position of the Bank and set rates as appropriate to manage liquidity within policy requirements. As at 30 June 2012 the high quality liquid asset ratio was 20.62% (2011: 20.91%)

The Bank maintains the following borrowing facilities with Cuscal as at 30 June:

	2012 $000	2011 $000
Overdraft facility:		
Committed limit	5,000	5,000
Undrawn amount	5,000	5,000
Standby borrowing facility:		
Committed limit	20,000	20,000
Undrawn amount	20,000	20,000
Uncommitted borrowing facility:		
Committed limit	55,000	55,000
Undrawn amount	-	-
Total undrawn facilities available	25,000	25,000

There are no restrictions on withdrawal of funds under the overdraft and standby facilities. Drawdowns under the uncommitted loan facility are for a maximum period of 12 months.

34. Financial instruments (continued)

Liquidity risk (continued)

The following tables detail the contractual maturities of financial liabilities as at 30 June:

	2012			
Financial liabilities	**At call $000**	**Not longer than 12 months $000**	**Longer than 12 months not longer than 5 years $000**	**Total $000**
At amortised cost:				
Borrowings	-	55,000	-	55,000
Deposits	416,181	675,234	6,736	1,098,151
Trade and other payables	-	15,575	-	15,575
	416,181	745,809	6,736	1,168,726

	2011			
Financial liabilities	**At call $000**	**Not longer than 12 months $000**	**Longer than 12 months not longer than 5 years $000**	**Total $000**
At amortised cost:				
Borrowings	-	62,265	-	62,265
Deposits	383,739	618,360	10,117	1,012,216
Trade and other payables	-	15,951	-	15,951
	383,739	696,576	10,117	1,090,432

Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Carrying amount		Net fair value	
	2012 $000	**2011 $000**	**2012 $000**	**2011 $000**
Financial assets				
Cash on hand and on deposit	43,682	94,612	43,682	94,612
Loans and receivables at amortised cost:				
Investments	261,121	177,245	261,121	177,245
Trade and other receivables	2,957	3,622	2,957	3,622
Loans and advances	970,280	915,938	970,471	915,906
Available-for-sale financial assets:				
Financial assets available for sale (2)	1,639	1,626	1,639	1,626
	1,279,679	1,193,043	1,279,870	1,193,011
Financial liabilities				
At amortised cost:				
Borrowings	55,000	62,265	56,399	62,282
Deposits	1,098,151	1,012,216	1,098,446	1,014,437
Trade and other payables	15,575	15,951	15,575	15,951
	1,168,726	1,090,432	1,170,420	1,092,670

(2) Financial assets available for sale represent shares in Cuscal Limited (see note 10). These shares are carried at cost as their value cannot be reliably measured due to the absence of an active market for the shares.

35. Capital

Capital management

APRA Prudential Standards require ADIs to maintain at all times a minimum ratio of capital to risk-weighted assets of 8%. As part of its risk management frame work, the Bank has developed a capital management plan to manage capital in a manner that is consistent with the assessed risk exposure and forecast levels of business activity. Capital is managed in a range comfortably above the 8% minimum required by APRA and incorporates an assessment of appropriate risk exposures for operational, market and credit risk.

	2012 %	2011 %
Capital adequacy		
APRA requirement (minimum 8.0%)	15.60	15.04

Directors' declaration

We, Mark Derry Richards and Paul Mulraney being two of the Directors of Defence Bank Limited, in accordance with a resolution of the Board of Directors, declare that:

a. in the Directors’ opinion there are reasonable grounds to believe that Defence Bank will be able to pay its debts as and when they fall due;

b. in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 3 to financial statements; and

c. in the Directors' opinion, the attached financial statements and notes to the financial statements are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and perfomance of Defence Bank for the year ended 30 June 2012.

M D Richards
Director
23 September 2012

P Mulraney
Director
23 September 2012

UHY Haines Norton
Chartered Accountants

Independent Auditor's Report
To the Members of Defence Bank Limited

Report on the Financial Report

We have audited the accompanying financial report of Defence Bank Limited (the company), which comprises the Statement of Financial Position as at 30 June 2012, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101: 'Presentation of Financial Statements', that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Chartered Accountants:
Harold Lourie
Richard J Lindner
Rodney H Hutton

ABN 48 259 373 375
Adam G Roberts
Joella F Gould

UHY Haines Norton
Chartered Accountants

Independent Auditor's Report
To the Members of Defence Bank Limited

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Defence Bank Limited on 21 September 2012, would be in the same terms if provided to the directors as at the date of this auditor's report.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Defence Bank Limited for the year ended 30 June 2012 included on Defence Bank Limited website. The Bank's directors are responsible for the integrity of Defence Bank Limited's website. We have not been engaged to report on the integrity of the Defence Bank Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Auditor's opinion

In our opinion:

a. the financial report of Defence Bank Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

UHY Haines Norton

UHY Haines Norton
Chartered Accountants

A Roberts
Partner

Melbourne

28 September 2012

35

I N T E L L I G E N T   C H O I C E • I N T E L L I G E N T   S O L U T I O N S

UHY Haines Norton
Chartered Accountants

Auditor's Independence Declaration

To the Board of Directors of Defence Bank Limited:

As Engagement Partner for the audit of Defence Bank Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

a. no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

A Roberts
Partner

UHY Haines Norton

UHY Haines Norton
Chartered Accountants

Melbourne

21 September 2012

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36

General information

Registration	Defence Bank Limited is a public company limited by shares (member shares) under the Corporations Act 2001 administered by the Australian Securities and Investments Commission ABN 57 087 651 385
Registered business name	Defence Bank
Australian financial services licence	Licence No. 234582
Registered office	Level 5, 31 Queen Street MELBOURNE VIC 3000
Mail address	PO Box 14537 MELBOURNE VIC 8001
Telephone numbers	(03) 8624 5888 1800 033 139
Fax number	(03) 8624 5892
Email	info@defencebank.com.au
Website	www.defencebank.com.au
Interstate trading	Defence Bank is registered to trade in each State and Territory of Australia.

Defence Bank Limited
ABN 57 087 651 385
AFSL/Australian Credit Licence 234582
Head Office, Level 5, 31 Queen Street
Melbourne VIC 3000

Defence Bank