2012-2013
Annual Financial 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 financial year ended 30 June 2013. 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 (Retired) Mark Derry RICHARDS	DipMgt, MDefStud, FAICD, MIPAA, MAMI, psc *(Chair of the Board and Chair 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 (Retired) Paul MULRANEY, CSC	BCom, MSc (Def Studies), CPA, MAICD, FAIM, MAMI, psc *(Deputy Chair of the Board and Chair of the Remuneration Committee)*	Initially elected to the Board on 23 November 1998. Most recently re-elected to the Board on 22 November 2010.
Ms Frances Helen RAYMOND	BCom, MBA, FCA, AFAIM, FAICD, MAMI, GDPPM *(Chair of the Audit, Risk and Compliance Committee (ARCC))*	Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 28 November 2011.
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.
Group Captain (Retired) David Cyril PAYNE	BEc (ANU), MSc (USAFIT), Dip Tpt, GradDipStratStud, FAICD, FAMI, jssc, psc	Initially appointed to the Board on 6 May 1988. Most recently re-elected to the Board on 26 November 2012.
Mr Alan Ronald HANDS	DipBus (Acct), DipPur/MM, M Bus (LOG), CPA, MAICD, AFAMI	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 26 November 2012.
Mr Bruce Andrew MURPHY	BSc, MCom, PGD, CAIA, GAICD	Initially appointed to the Board on 5 May 2012. Most recently appointed to the Board on 25 November 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.

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 (2)	
	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	-	7	4	4	-	-	2	2	2	2
P Mulraney	11	11	8	7	4	4	-	-	2	2	-	-
D C Payne	11	11	8	8	-	-	-	-	-	-	2	2
A R Hands	11	11	6	5	-	-	-	-	2	2	-	-
C S Brown (1)	11	11	-	1	-	-	1	1	-	-	-	-
C D Madden	11	11	4	4	-	-	-	-	-	-	-	-
F H Raymond	11	11	8	8	-	-	-	-	-	-	-	-
B A Murphy (1)	11	10	-	1	-	-	-	-	-	-	-	-

(1) Attended the Audit, Risk and Compliance Committee (ARCC) meetings as an observer.

(2) The Policy and Constitution Review Committee (PCRC) was disbanded effective 26 November 2012

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.

Review of operations

a. Operating profit

During the financial year the Bank earned a net profit of $10,021 thousand (2012: $10,494 thousand) after providing $4,254 thousand (2012: $4,184 thousand) for income tax expense.

Review of operations (continued)

b. Deposit and lending growth

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

	2013 $000	2012 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	1,443,120	1,285,682	157,438	12.2
Total deposits	1,285,163	1,098,151	187,012	17.0
Total equity	123,096	113,075	10,021	8.9
Loans and advances	1,095,864	970,280	125,584	12.9
Securitised housing loans (off balance sheet)	55,812	65,410	(9,598)	(14.7)
Total loans (on and off balance sheet)	1,151,676	1,035,690	115,986	11.2

c. Branch network

The Bank remains committed to providing excellent service to its members through its network of branches, the largest branch network in the Australian Defence Force (ADF). The Bank assesses its branch network on an ongoing basis to take into account changes within the ADF and during the financial year made a decision to close branches located at Moorebank and Glenbrook bases in NSW. Thereafter, construction commenced of a new branch at Brindabella in the ACT. Throughout the year the Bank has been busy refreshing many of its branches around Australia as part of an ongoing branch renewal program.

d. Products and services

Continuing to enhance the delivery of products and services to members via new technology was a key focus for the 2013 financial year. The Bank introduced new technology solutions such as the video call centre which allows members to talk face-to-face with a member service officer from anywhere around the world. The bank continued to evolve its mobile banking service by launching a mobile banking app for both iPhone and Android mobile devices. In addition, the Bank in partnership with Western Union Business Solutions, launched online overseas payments which enabled members to transfer money online in over 40 different currencies.

The Bank remained committed to offering new products to members with the introduction of the Flexi-Saver and DHOAS Saver home loans. These products offered interest only repayments plus loan portability and were yet another edition to the growing home loan portfolio designed to better service the Bank's members' home loan needs.

In addition to the development of new products, the Bank continues to ensure that existing products represent value for members with two of the Bank's products, the iSaver account and credit card, both maintaining a five star rating by Cannex. The Bank was also a finalist in the Australian Lending Awards, highlighting the exceptional service, excellent home loan product range and outstanding lending capabilities the Bank offers.

The Bank also continued to promote its Retirement Savings Account (RSA) product through SBS and major Defence publications. The RSA's proven popularity was further evidenced by growth in funds under administration, making it now the largest RSA product offered by a Mutual Bank in Australia.

e. Corporate rating

During the financial year the Bank engaged Standard and Poor's (S&P) to provide a corporate rating. S&P has issued a long term issuance credit rating for the Bank of BBB+ (stable) and a short term issuance credit rating for the Bank of A-2. The Bank intends to utilise the corporate rating in the development of an Electronic Certificate of Deposit program.

f. Internal securitisation

During the financial year the Bank executed an internal securitisation transaction whereby $150,000 thousand of eligible residential mortgage receivables were sold to DBL Funding Trust No.1 which financed the purchase by issuing Aaa(sf) rated Residential Mortgage Backed Securities (RMBS) to the Bank. The RMBS are eligible for sale and repurchase transactions with the RBA and as such enhance the liquidity position of the Bank.

Directors' report

Review of operations (continued)

g. Planning

The Board of Directors and executive managers met in March 2013 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.

Significant changes in the state of affairs

Other than those matters detailed in the review of operations, there were no significant changes in the state of affairs of the Bank during the financial year.

Likely developments and expected results

The Bank's objectives over the next and subsequent financial years are 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.

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 financial year.

Contracts in which directors have an interest

Since 1 July 2012, 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 auditor's 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 Corporations Act 2001. 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 39.

Directors' report

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.

This report is signed in accordance with a formal resolution of the Board of Directors.

M D Richards	P Mulraney
Director	Director
20 September 2013	20 September 2013

Statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2013

	Notes	2013 $000	2012 $000
Income			
Interest income	4	79,361	87,099
Interest expense	4	(42,452)	(50,614)
Net interest income		36,909	36,485
Other income	5	12,756	13,578
		49,665	50,063
Expenses			
Personnel expenses	5	17,980	17,359
Depreciation and amortisation expense	5	1,072	1,218
Impairment losses on loans and advances	12	237	487
Other expenses	5	16,101	16,321
		35,390	35,385
Profit before income tax		14,275	14,678
Income tax expense	6	4,254	4,184
Profit for the year from continuing operations		10,021	10,494
Other comprehensive income		-	-
Total comprehensive income		10,021	10,494
Profit for the year attributable to controlling interests		10,021	10,494
Total comprehensive income for the year attributable to controlling interests		10,021	10,494

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2013

	Notes	2013 $000	2012 $000
Assets			
Cash and cash equivalents	8	165,247	43,682
Investments	9	172,599	261,121
Equity investments	10	1,639	1,639
Trade and other receivables	11	2,153	2,957
Loans and advances	12	1,095,864	970,280
Property, plant and equipment	13	2,386	2,953
Current tax assets	14	-	102
Deferred tax assets	15	1,958	1,821
Intangible assets	16	487	454
Other assets	17	787	673
		1,443,120	1,285,682
Liabilities			
Borrowings	18	15,000	55,000
Deposits	19	1,285,163	1,098,151
Trade and other payables	20	15,267	15,575
Current tax liabilities	21	500	-
Provisions	22	4,094	3,881
		1,320,024	1,172,607
Net assets		123,096	113,075
Equity			
Share capital	23	810	772
Reserves	24	122,286	112,303
Retained earnings	25	-	-
		123,096	113,075

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the financial year ended 30 June 2013

	2013				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2012	772	2,565	109,738	-	113,075
Transfer on redemption of redeemable member shares	38	-	-	(38)	-
Transfer to general reserve for credit losses	-	124	(124)	-	-
Profit for the financial year	-	-	-	10,021	10,021
Transfer to general reserve	-	-	9,983	(9,983)	-
Balance at 30 June 2013	810	2,689	119,597	-	123,096

	2012				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2011	719	2,565	99,297	-	102,581
Transfer on redemption of redeemable member shares	53	-	-	(53)	-
Profit for the financial year	-	-	-	10,494	10,494
Transfer to general reserve	-	-	10,441	(10,441)	-
Balance at 30 June 2012	772	2,565	109,738	-	113,075

The accompanying notes form part of these financial statements.

Statement of cash flows

for the financial year ended 30 June 2013

	Notes	2013 $000	2012 $000
Cash flows from operating activities			
Interest received		79,730	88,061
Fees and commissions received		12,166	13,088
Other income received		787	608
Dividends received		302	356
Recoveries on loans previously written off		357	246
Goods and services tax refunded		342	206
Interest paid		(45,013)	(50,054)
Payments to suppliers and employees		(34,183)	(35,127)
Income tax paid		(3,789)	(6,150)
Cash flows from operating activities before changes in operating assets and liabilities		10,699	11,234
Net decrease / (increase) in investments		88,522	(83,876)
Net increase in loans and advances		(125,821)	(54,829)
Net decrease in other operating receivables		51	16
Net increase in deposits		187,012	85,399
Net increase in other operating payables		1,641	219
Net cash provided by / (used in) operating activities	26	162,104	(41,837)
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		-	14
Purchases of property, plant and equipment		(121)	(1,461)
Purchases of intangible assets		(418)	(381)
Net cash used in investing activities		(539)	(1,828)
Cash flows from financing activities			
Net decrease in borrowings		(40,000)	(7,265)
Net increase / (decrease) in cash and cash equivalents		121,565	(50,930)
Cash and cash equivalents at the beginning of the financial year		43,682	94,612
Cash and cash equivalents at the end of the financial year	8	165,247	43,682

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2013

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.
ATO means the Australian Taxation Office.
CUFSS means the Credit Union Financial Support Scheme.
Cuscal means Credit Union Services Corporation (Australia) Limited.
GST means Goods and Services Tax.
IFRS means International Financial Reporting Standards.
Integris means Integris Securitisation Service Pty Limited.
KMP means Key Management Personnel as detailed in AASB 124.
RBA means the Reserve Bank of Australia.
RMBS means Residential Mortgage Backed Securities.

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

a. Standards and Interpretations affecting presentation and disclosure

The following new and revised Standards and Interpretations have been adopted in the reported financial year and have affected the amounts reported in these financial statements.

Standard / Interpretation	Impact
Amendments to AASB 101 'Presentation of Financial Statements'.	The amendment (part of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income') introduced new terminology for the statement of comprehensive income and income statement. Under the amendment the statement of comprehensive income is renamed as the statement of profit or loss and other comprehensive income.

b. Standards and Interpretations affecting reported results or financial position

There are no new and revised Standards or Interpretations adopted in the financial statements affecting the reporting results or financial position.

c. Standards and Interpretations in issue not yet effective

At the date of the financial report the Standards and Interpretations listed below were in issue but not yet effective.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards.	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'.	1 January 2013	30 June 2014

Notes to the financial statements

for the financial year ended 30 June 2013

2. Application of new and revised accounting standards (continued)

d. Standards and Interpretations in issue not yet effective (continued)

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'.	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'.	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'.	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'.	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'.	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'.	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'.	1 January 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities'.	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities'.	1 January 2013	30 June 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements 2009-2011 Cycle'.	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments'.	1 January 2013	30 June 2014

Notes to the financial statements

for the financial year ended 30 June 2013

2. Application of new and revised accounting standards (continued)

d. Standards and Interpretations in issue not yet effective (continued)

Other than as indicated below the Standards and Interpretations in issue but not yet effective are not expected to have a significant effect on the disclosures in the financial statements:

Standard / Interpretation	Impact
AASB 9 'Financial Instruments', and the relevant amending standards.	AASB 9 is intended to replace AASB 139 Financial Instruments in its entirety. AASB 9 is being issued in phases with adoption required for those issued phases for annual reporting periods beginning on or after 1 January 2015. The Bank does not intend to adopt this standard early and the impact of adoption has not yet been determined.
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'.	The changes to AASB 119 'Employee Benefits' may require the Bank to re-classify a portion of current, short-term employee benefit obligations as long-term on the basis that the obligations are not expected to be wholly settled within the next 12 months. The value of re-classified obligations would be discounted accordingly. The Bank does not intend to adopt this standard early and the impact of adoption has not yet been determined.

3. Significant accounting policies

a. 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 IFRS. The financial statements were authorised for issue by the Directors on 20 September 2013.

b. Basis of preparation

The financial statements have been prepared on an accruals basis and are 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. All amounts are presented in Australian dollars.

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.

c. Comparative amounts

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

d. Property, plant and equipment

Items of 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

Notes to the financial statements

for the financial year ended 30 June 2013

3. Significant accounting policies (continued)

d. Property, plant and equipment (continued)

their effective life, commencing from the time the asset is held ready for use.

e. Depreciation

Depreciation is calculated using 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	
Computer equipment	10.0% - 40.0%
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 profit or loss and other comprehensive income.

f. Amortisation

Software licences or computer software that is not an integral part of the related hardware is classified as an intangible asset and the cost is amortised over the estimated useful life of the software.

g. Bad and doubtful debts

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

- The member is declared bankrupt or has executed an arrangement under Part IX or Part X of the Bankruptcy Act 1966 and the Bank is unlikely to receive sufficient funds to satisfy the debt.
- The member's whereabouts is 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.

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 profit or loss and other 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 30 days in arrears.

3. Significant accounting policies (continued)

h. Impairment - loans and advances to members

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.

i. Securitisation

Where the Bank enters into a transaction that substantially transfers all the risk and rewards of ownership of the transferred assets, the Bank de-recognises the transferred assets. Where a third party originator enters into a transaction and funds that transaction and the Bank does not carry the risks and rewards of ownership the Bank does not recognise the asset. Where the Bank enters into transactions that transfer assets recognised on its statement of financial position but retains substantially all of the risks and rewards of ownership of the transferred assets, the transferred assets are not de-recognised by the Bank.

j. 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 20).

k. Employee benefits

Provision is made for employees' entitlement benefits accumulated as a result of employees rendering services up to 30 June 2013, 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.

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

Employee 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 employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

l. Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is the tax payable on taxable profit for the current year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted, or substantively enacted, by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets or liabilities.

3. Significant accounting policies (continued)

l. Income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to the same taxation authority and the Bank intends to settle its current tax assets and current tax liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in income respectively.

m. Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be reliably estimated. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount on initial recognition. When a financial asset is classified as impaired the Bank ceases to recognise interest, although the Bank will subsequently recognise interest income should the financial asset be returned to a non-impaired status.

Fee and commission income is recognised on an accrual basis once a right to receive consideration has been attained or when service to the customer has been rendered. 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 financial statements.

Dividend revenue is recognised when the right to receive a dividend has been established.

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

n. Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or expense.

The net amount of GST recoverable or payable is included as part of receivables or payables.

o. Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Operating lease payments are recognised as an expense on a straight line basis over the lease term. Incentives to enter into operating leases are recognised as a liability. The aggregate benefit of an incentive is recognised as a reduction of rental expense on a straight-line basis over the term of the lease.

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.

	2013		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	71,603	1,833	2.56
Investments	185,903	7,655	4.12
Loans and advances	1,034,626	69,873	6.75
		79,361	6.14
Interest bearing liabilities			
Borrowings	44,787	2,119	4.73
Deposits	1,123,057	40,333	3.59
		42,452	3.64
Net interest income		36,909	

	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	

Notes to the financial statements

for the financial year ended 30 June 2013

5. Income and expense

Included in the profit for the year from continuing operations are the following items of income and expense:

	2013 $000	2012 $000
Other income		
Dividends	302	356
Loan fee income	1,132	1,252
Other fee income	5,917	6,701
Insurance commissions	1,979	1,761
Other commissions	2,786	2,644
Gain on disposal of property, plant and equipment	-	10
Bad debts recovered	357	246
Other income	283	608
	12,756	13,578
Personnel expenses		
Employee benefits	15,937	15,488
Provision for employee benefits	176	369
Termination benefits	344	116
Other personnel expenses	1,523	1,386
	17,980	17,359
Depreciation and amortisation expense		
Plant and equipment	444	584
Buildings and leasehold improvements	243	178
Computer software	385	456
	1,072	1,218
Other expenses		
Loss on disposal of property, plant and equipment	1	45
Rental - operating leases	1,027	1,067
Occupancy expenses	324	358
Information technology expenses	3,225	3,273
External financial transaction processing fees and charges	4,278	4,498
Telephone expenses	392	400
Repairs and maintenance	8	10
Administration expenses	4,169	3,841
Marketing and promotion	1,103	1,411
Other expenses from ordinary activities	1,574	1,418
	16,101	16,321

6. Income tax expense

	2013 $000	2012 $000
Income tax expenses recognised in profit or loss:		
Current tax expense in respect of current year	4,340	4,337
Adjustments recognised in the current year in relation to current tax of prior years	56	(128)
Deferred tax income relating to the origination and reversal of temporary differences	(142)	(25)
Income tax expense	4,254	4,184

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

	2013 $000	2012 $000
Profit before income tax	14,275	14,678
Income tax calculated at 30% (2012: 30%)	4,283	4,403
Effect of expenses that are not deductible in determining taxable profit	5	15
Effect of other income that is assessable in determining taxable profit	38	45
Effect of imputation credits	(128)	(151)
Adjustments recognised in the current year in relation to current tax of prior years	56	(128)
Income tax expense	4,254	4,184

7. Franking credits balance

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

	2013 $000	2012 $000
Franking account balance as at the end of the financial year at 30% (2012:30%)	48,925	45,018
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	500	(102)
	49,425	44,916

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

	2013 $000	2012 $000
Cash on hand	2,485	2,557
Call deposit with ADIs	162,762	41,125
	165,247	43,682

Included in call deposits with ADIs is an amount of $4,056 thousand (2012: Nil) in restricted cash. The amount represents cash collections remitted to DBL Funding Trust No. 1 during the month. The use of these funds is restricted under the terms of the trust deed.

9. Investments

	2013 $000	2012 $000
Term deposits with ADIs	5,000	40,384
Negotiable certificates of deposit	143,235	220,737
Floating rate notes	24,364	-
	172,599	261,121
a. Maturity analysis		
Not longer than three months	67,127	174,219
Longer than three months, not longer than one year	81,108	86,902
Longer than one year, not longer than five years	24,364	-
	172,599	261,121

10. Equity investments

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

11. Trade and other receivables

Interest receivable on investments	1,478	1,847
Other operating receivables	159	210
Trade debtors	516	900
	2,153	2,957

12. Loans and advances

Overdrafts	8,001	8,312
Credit cards	15,508	15,248
Term loans	1,072,746	947,274
Gross loans and advances	1,096,255	970,834
Provision for impairment	(391)	(554)
Net loans and advances	1,095,864	970,280
a. Maturity analysis		
Overdrafts	8,001	12,500
Not longer than three months	18,500	18,275
Longer than three months, not longer than one year	54,413	53,084
Longer than one year, not longer than five years	239,416	227,072
Longer than five years	775,925	659,903
	1,096,255	970,834
b. Loans by security type		
Mortgage over property	935,308	796,614
Mortgage over other assets	68,680	80,841
Unsecured	92,267	93,379
	1,096,255	970,834

12. Loans and advances (continued)

	2013 $000	2012 $000
c. Loans by purpose		
Purchase of residential owner-occupied property	870,070	743,284
Purchase of residential investment property	64,776	52,618
Purchase of commercial property	462	712
Other	160,947	174,220
	1,096,255	970,834
d. Provision for impairment		
Balance at the beginning of the financial year	554	579
Increase in provision for impairment of loans and advances	237	487
Bad debts written off	(400)	(512)
Balance at the end of the financial year	391	554
Comprising		
Individually assessed provisions	83	73
Collectively assessed provision	308	481
	391	554

e. Concentration of credit risk

There are no loans to a single entity or group of entities which represent 10% or more of equity.

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.

13. Property, plant and equipment

Reconciliation of carrying amount of property, plant and equipment:

	2013				
	Portable buildings $000	Leasehold improvements $000	Plant and equipment $000	Work in progress $000	Total $000
At cost					
Balance at the beginning of the financial year	214	1,617	7,758	-	9,589
Additions	-	60	49	12	121
Reclassifications	-	354	(354)	-	-
Disposals	-	-	(19)	-	(19)
Balance at the end of the financial year	214	2,031	7,434	12	9,691
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(214)	(316)	(6,106)	-	(6,636)
Depreciation expense	-	(243)	(444)	-	(687)
Reclassifications	-	(35)	35	-	-
Eliminated on disposal of assets	-	-	18	-	18
Balance at the end of the financial year	(214)	(594)	(6,497)	-	(7,305)
Carrying amount at 30 June 2013	-	1,437	937	12	2,386

13. Property, plant and equipment (continued)

	2012				
	Portable buildings $000	Leasehold improvements $000	Plant and equipment $000	Work in progress $000	Total $000
At cost					
Balance at the beginning of the financial year	214	440	7,165	1,002	8,821
Additions	-	1,240	221	-	1,461
Reclassifications	-	168	834	(1,002)	-
Disposals	-	(231)	(462)	-	(693)
Balance at the end of the financial year	214	1,617	7,758	-	9,589
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(214)	(332)	(5,973)	-	(6,519)
Depreciation expense	-	(178)	(584)	-	(762)
Eliminated on disposal of assets	-	194	451	-	645
Balance at the end of the financial year	(214)	(316)	(6,106)	-	(6,636)
Carrying amount at 30 June 2012	-	1,301	1,652	-	2,953

14. Current tax assets

	2013 $000	2012 $000
Current tax assets	-	102

15. Deferred tax assets

The movement in deferred tax assets / (liabilities) for each temporary difference during the year is as follows:

	2013		
	Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,158	65	1,223
Provision for impairment on loans not yet deductible	166	(49)	117
Prior year bad debts not yet deductible	131	8	139
Property, plant and equipment	183	(16)	167
Intangible assets	(11)	50	39
Accrued income not yet earned	202	49	251
Accrued expenses not yet deductible	86	(60)	26
Prepayments	(94)	90	(4)
	1,821	137	1,958

15. Deferred tax assets (continued)

	2012 Opening balance $000	2012 Recognised in profit or loss $000	2012 Closing balance $000
Provisions for employee benefits not yet deductible	1,064	94	1,158
Provision for impairment on loans not yet deductible	174	(8)	166
Prior year bad debts not yet deductible	514	(383)	131
Property plant and equipment	369	(186)	183
Intangible assets	-	(11)	(11)
Accrued income not yet earned	24	178	202
Accrued expenses not yet deductible	36	50	86
Prepayments	-	(94)	(94)
	2,181	(360)	1,821

16. Intangible assets

	2013 Computer software $000	2013 Work in progress $000	2013 Total $000
At cost			
Balance at the beginning of the financial year	3,140	-	3,140
Additions	252	166	418
Balance at the end of the financial year	3,392	166	3,558
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(2,686)	-	(2,686)
Amortisation expense	(385)	-	(385)
Balance at the end of the financial year	(3,071)	-	(3,071)
Carrying amount at 30 June 2013	321	166	487

	2012 Computer software $000	2012 Work in progress $000	2012 Total $000
At cost			
Balance at the beginning of the financial year	2,557	-	2,557
Additions	381	-	381
Reclassifications	202	-	202
Balance at the end of the financial year	3,140	-	3,140
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(2,028)	-	(2,028)
Reclassifications	(202)	-	(202)
Amortisation expense	(456)	-	(456)
Balance at the end of the financial year	(2,686)	-	(2,686)
Carrying amount at 30 June 2012	454	-	454

17. Other assets

	2013 $000	2012 $000
Prepayments	787	673

18. Borrowings

	2013 $000	2012 $000
Secured loans from Cuscal (refer note 29)	15,000	55,000
	15,000	55,000

a. Maturity analysis

	2013 $000	2012 $000
Not longer than three months	15,000	-
Longer than three months, not longer than one year	-	55,000
	15,000	55,000

19. Deposits

	2013 $000	2012 $000
Members' redeemable preference shares	765	758
Call deposits	459,370	415,423
Term deposits	825,028	681,970
	1,285,163	1,098,151

a. Maturity analysis

	2013 $000	2012 $000
At call	460,135	416,181
Not longer than three months	424,033	392,191
Longer than three months, not longer than one year	396,397	283,043
Longer than one year, not longer than five years	4,598	6,736
	1,285,163	1,098,151

b. Concentration of deposits

There are no depositors whose deposits represent 10% or more of total liabilities.

20. Trade and other payables

	2013 $000	2012 $000
Trade creditors	525	-
Other operating payables	2,382	741
Interest payable	10,540	13,100
Accrued expenses	980	1,059
Unearned commissions	76	83
Unamortised lease incentive	764	592
	15,267	15,575

21. Current tax liabilities

	2013 $000	2012 $000
Current income tax payable	500	-

22. Provisions

	2013 $000	2012 $000
Provision for employee entitlements	4,077	3,862
Other provisions	17	19
	4,094	3,881

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 $2,498,752 (2012: $2,349,224)

23. Share capital

	2013 $000	2012 $000
Balance at the beginning of the financial year	772	719
Transfer on redemption of redeemable preference shares	38	53
Balance at the end of the financial year	810	772

Share capital represents the cumulative amount of redeemable members' shares redeemed by the Bank since 1 July 1999. Corporations law requires that the redemption of shares be made out of profits. Since the value of shares have been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

24. Reserves

a. General reserve

	2013 $000	2012 $000
Balance at the beginning of the financial year	109,738	99,297
Transfer to the general reserve for credit losses	(124)	-
Transfer from retained earnings	9,983	10,441
Balance at the end of the financial year	119,597	109,738

The general reserve 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 and less any amounts transferred to the general reserve for credit losses. 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.

b. General reserve for credit losses

	2013 $000	2012 $000
Balance at the beginning of the financial year	2,565	2,565
Transfer from the general reserve for credit losses	124	-
Balance at the end of the financial year	2,689	2,565

The general reserve for credit losses is established in accordance with Prudential Standards and represents the Bank's prudent estimate of credit losses estimated, but not certain to arise, over the life of all individual facilities making up the business of the Bank.

25. Retained earnings

	2013 $000	2012 $000
Profit from continuing operations after income tax	10,021	10,494
Transfers to share capital upon redemption of redeemable preference shares	(38)	(53)
Transfers to general reserve	(9,983)	(10,441)
Retained earnings at the end of the financial year	-	-

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.

Profit for the year from continuing operations can be reconciled to net cash flows from operating activities as follows:

	2013 $000	2012 $000
Profit for the year from continuing operations	10,021	10,494
Impairment of loans and advances	237	487
Depreciation and amortisation	1,072	1,218
Gain on disposal of equipment	-	(10)
Loss on disposal of equipment	1	45
(Decrease) / increase in interest payable	(2,560)	560
Decrease in interest receivable	369	962
(Increase) / decrease in deferred tax assets	(137)	360
Decrease / (increase) in trade debtors	384	(313)
(Increase) / decrease in prepaid expenses	(114)	54
Increase / (decrease) in income tax payable	602	(2,326)
Increase in provision for employee benefits	215	317
(Decrease) / increase in other provision	(2)	19
Increase / (decrease) in trade creditors	525	(1,422)
Decrease in accrued expenses	(79)	(325)
Increase in unamortised lease incentive	172	592
Decrease in unearned commissions	(7)	-
Decrease / (increase) in investments	88,522	(83,876)
Increase in term loans	(125,872)	(54,956)
Decrease in overdraft balances	311	486
Increase in credit card balances	(260)	(359)
Decrease in other operating receivables	51	16
Increase / (decrease) in members redeemable preference shares	7	(105)
Increase in call deposits	43,947	32,534
Increase in term deposits	143,058	53,493
Increase in other operating payables	1,641	218
Net cash provided by / (used in) operating activities	162,104	(41,837)

27. Expenditure commitments

Operating lease arrangements

The Bank's operating leases primarily relate to property leases of head office and the Bank's branch network with original lease terms of ten or five years. Further leasing arrangements of the Bank are for its core banking, facilities management and associated support services, as well as various office equipment. Rental terms of the Bank's operating lease contracts are either fixed for the contracted period or subject to agreed annual indexation clauses.

	2013 $000	2012 $000
Not longer than three months	787	776
Longer than three months, not longer than one year	2,362	2,329
Longer than one year, not longer than five years	3,621	5,853
Later than five years	2,779	3,635
	9,549	12,593

28. Financial commitments

Outstanding loan commitments		
Loans approved but not advanced	52,393	51,379
Amounts available for redraw under term loans	115,299	112,300
Unused balance of revolving credit facilities	46,684	47,672
	214,376	211,351

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

29. 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 2013 is $15,000 thousand (2012: $55,000 thousand).

30. Contingent liabilities

With effect from 1 July 1999, the Bank is a party to CUFSS, which is a voluntary scheme that many 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.

The Bank has given notice to CUFSS that it intends to exit the scheme from 30 April 2014.

31. Securitisation arrangements

a. Integris Securitisation Services Pty Limited (Integris)

The Bank has an arrangement with Integris, a wholly owned subsidiary of Cuscal, whereby it acts as an agent to promote and complete loans on its behalf. The Bank also manages the loans portfolio on behalf of Integris for which it receives a fee. The Bank bears no credit risk exposure in respect of these loans and in accordance with its accounting policies does not recognise these loans on its statement of financial position. The securities issued by Integris do not represent liabilities of the Bank and the Bank does not guarantee the payment of interest or principal on these securities. The Bank is not obliged to support any losses by investors in the trust and does not intend to provide such support. The value of loans originated on behalf of Intergris during the financial year amounted to $36 thousand (2012: $461 thousand). The balance of securitised loans within the Integris portfolio as at the end of the financial year amounted to $55,812 thousand (2012: $65,410 thousand).

b. DBL Funding Trust No.1

During the financial year the Bank executed an internal securitisation transaction whereby $150,000 thousand of eligible residential mortgage receivables were transferred to DBL Funding Trust No.1 which financed the transfer by issuing Aaa(sf) rated RMBS to the Bank. The RMBS are eligible for sale and repurchase transactions with the RBA and as such enhance the liquidity position of the Bank. The Bank retains substantially all of the risk and rewards of ownership of the transferred assets and in accordance with its accounting policies does not de-recognise the transferred assets.

32. Remuneration of auditor

	2013 $	2012 $
Audit or review of the financial statements	111,100	125,345
Taxation compliance	-	5,445
Other services	6,380	5,885
	117,480	136,675

33. Key management personnel

a. Details of key management personnel

The key management personnel of the Bank comprise the Board, the Chief Executive Officer (CEO) and the executive management team. The directors and other members of key management personnel during the year and the roles they held at the date of this report were:

M D Richards	Director, Chair of the Board and Chair of the Executive Committee
P Mulraney	Director, Deputy Chair of the Board and Chair of the Remuneration Committee
F H Raymond	Director and Chair of the Audit, Risk and Compliance Committee
C D Madden	Director and Board Proctor
D C Payne	Director
A Hands	Director
C S Brown	Director
B A Murphy	Director
J M Linehan	Chief Executive Officer and Company Secretary
D J Barton	Chief Financial Officer and Company Secretary
I Brown	Chief Information Officer
G Prout	Executive Manager - Retail Services
A Sciberras	Executive Manager - Lending
K Bugeja	Executive Manager - People and Culture
L Kyle	Executive Manager - Marketing (Resigned 28 March 2013)

33. Key management personnel (continued)

b. Compensation of key management personnel

The aggregate compensation made to key management personnel of the Bank is as follows:

	2013 $	2012 $
Directors' remuneration:		
Short-term employee benefits	498,908	421,710
CEO and executive management remuneration:		
Short-term employee benefits	2,345,002	2,178,039
Other long-term benefits	176,839	81,314
Termination benefits	-	126,437
	2,521,841	2,385,790
Total key management personnel remuneration:		
Short-term employee benefits	2,843,910	2,599,749
Other long-term benefits	176,839	81,314
Termination benefits	-	126,437
	3,020,749	2,807,500

c. Loans to key management personnel and close family members

All loans between key management personnel or their close family members and the Bank were conducted on normal commercial terms. The movement of balances outstanding for home loans and personal loans, or limits outstanding for credit cards to key management personnel during the financial year, is as follows:

	2013		
	Credit cards $	Home loans $	Personal loans $
Balance at the beginning of the financial year	88,000	2,288,203	39,514
Advances made / new limits approved during the financial year	3,000	-	98,300
Repayments of principal / limits withdrawn during the financial year	-	(138,241)	(26,804)
Balance at the end of the financial year	91,000	2,149,962	111,010

	2012		
	Credit cards $	Home loans $	Personal loans $
Balance at the beginning of the financial year	38,000	1,748,565	68,296
Adjustments for appointed KMP	-	561,038	-
Advances made / new limits approved during the financial year	50,000	75,000	10,000
Repayments of principal / limits withdrawn during the financial year	-	(96,400)	(38,782)
Balance at the end of the financial year	88,000	2,288,203	39,514

33. Key management personnel (continued)

d. Deposits by key management personnel and their close family members

All deposit transactions between key management personnel or their close family members and the Bank were conducted on normal commercial terms. The deposit balances as at the end of the financial year attributable to key management personnel and their close family members is as follows:

	2013 $	2012 $
Total deposits	1,302,795	1,260,628

34. Segment reporting

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

35. Financial instruments

	2013 $000	2012 $000
a. Categories of financial instruments		
Financial assets		
Cash on hand and on deposit	165,247	43,682
Loans and receivables at amortised cost:		
Investments	172,599	261,121
Trade and other receivables	2,153	2,957
Loans and advances	1,095,864	970,280
Available-for-sale financial assets:		
Equity investments	1,639	1,639
	1,437,502	1,279,679
Financial liabilities		
At amortised cost:		
Borrowings	15,000	55,000
Deposits	1,285,163	1,098,151
Trade and other payables	15,267	15,575
	1,315,430	1,168,726

b. 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.

c. 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.

35. Financial instruments (continued)

c. Market risk (continued)

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters, whilst 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.

The interest rate 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:

	2013 $000	2012 $000
Profit	5,337	3,714
Equity	5,337	3,714

d. 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:

i. 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.

ii. 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 both the counterparties with which the bank transacts to those with an investment grade rating and also 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.

35. Financial instruments (continued)

d. 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 credit quality of the Bank's financial assets at the end of the financial year are as follows:

	2013					
	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 deposit	-	79,300	85,947	-	-	165,247
Loans and receivables at amortised cost:						
Investments	-	9,002	76,795	86,802	-	172,599
Trade and other receivables	2,153	-	-	-	-	2,153
Loans and advances	1,094,394	-	-	-	1,470	1,095,864
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,096,547	89,941	162,742	86,802	1,470	1,437,502

	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 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:						
Equity investments	-	1,639	-	-	-	1,639
	971,870	132,253	119,590	54,599	1,367	1,279,679

(1) Ratings grades refer to Standard and Poor's (S&P) 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 S&P rating.

Notes to the financial statements

for the financial year ended 30 June 2013

35. Financial instruments (continued)

d. Credit risk (continued)

The delinquency of financial assets classified as past due and / or impaired at the end of the financial year are as follows:

	2013					
	Past due and not impaired			Past due and / or 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	863	141	-	145	321	1,470
	863	141	-	145	321	1,470

	2012					
	Past due and not impaired			Past due and / or 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

e. 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 2013 the high quality liquid asset ratio was 22.97% (2012: 20.62%)

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

	2013 $000	2012 $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
Total undrawn facilities available	25,000	25,000

There are no restrictions on withdrawal of funds under the overdraft and standby facilities.

35. Financial instruments (continued)

e. Liquidity risk (continued)

During the financial year the Bank established DBL Funding Trust No.1 Repo Series No. 1, a special purpose funding vehicle. DBL Funding Trust No.1 purchased $150,000 thousand in eligible residential mortgages from the Bank funded by the issuance of RMBS to the Bank. The RMBS are eligible for sale and repurchase transactions with the RBA and serve to strengthen the Bank's liquidity position. The value of securities outstanding that are eligible for sale and repurchase transaction with the RBA at the end of the financial year are as follows:

	2013 $000	2012 $000
Aaa(sf) rated RMBS	121,513	-

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

	2013				
Financial liabilities	**At call $000**	**Not at call, not longer than three months $000**	**Longer than three months, not longer than one year $000**	**Longer than one year, not longer than five years $000**	**Total $000**
At amortised cost:					
Borrowings	-	15,000	-	-	15,000
Deposits	460,135	424,033	396,397	4,598	1,285,163
Trade and other payables	-	15,267	-	-	15,267
	460,135	454,300	396,397	4,598	1,315,430

	2012				
Financial liabilities	**At call $000**	**Not at call, not longer than three months $000**	**Longer than three months, not longer than one year $000**	**Longer than one year, not longer than five years $000**	**Total $000**
At amortised cost:					
Borrowings	-	-	55,000	-	55,000
Deposits	416,181	392,191	283,043	6,736	1,098,151
Trade and other payables	-	15,575	-	-	15,575
	416,181	407,766	338,043	6,736	1,168,726

35. Financial instruments (continued)

e. Liquidity risk (continued)

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	
	2013 $000	2012 $000	2013 $000	2012 $000
Financial assets				
Cash on hand and on deposit	165,247	43,682	165,247	43,682
Loans and receivables at amortised cost:				
Investments	172,599	261,121	172,663	261,121
Trade and other receivables	2,153	2,957	2,153	2,957
Loans and advances	1,095,864	970,280	1,096,208	970,471
Available-for-sale financial assets:				
Equity investments [2]	1,639	1,639	1,639	1,639
	1,437,502	1,279,679	1,437,910	1,279,870
Financial liabilities				
At amortised cost:				
Borrowings	15,000	55,000	15,575	56,399
Deposits	1,285,163	1,098,151	1,286,295	1,098,446
Trade and other payables	15,267	15,575	15,267	15,575
	1,315,430	1,168,726	1,317,137	1,170,420

[2] Equity investments represents 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.

36. Capital

Capital management

APRA Prudential Standards require ADIs to maintain at all times a minimum ratio of total capital to risk-weighted assets of 8%, comprising, at a minimum, a Common Equity Tier 1 ratio of 4.5% and a total Tier 1 ratio of 6.0%. The Bank's capital ratio at the end of the financial year is as follows:

	2013 %	2012 %
Common Equity Tier 1	14.7	15.3
Total Tier 1 Capital	14.7	15.3
Tier 2 Capital	0.3	0.3
Total Capital	15.0	15.6

As part of its risk management frame work, the Bank has developed an Internal Capital Adequacy Assessment Process to monitor and 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 annual assessment of appropriate risk exposures for operational, market and credit risks.

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 Limited 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 the 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 2013.

M D Richards
Director
20 September 2013

P Mulraney
Director
20 September 2013

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 2013, Statement of Profit or Loss and other 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:
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Joella F Gould

ABN 48 259 373 375

Independent auditor's report

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 20 September 2013, 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 2013 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 2013 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

26 September 2013

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Auditor's independence declaration

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 2013, 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

20 September 2013

Liability limited by a scheme approved under Professional Standards Legislation.

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An association of independent firms in Australia and New Zealand and a member of UHY, an international association of independent accounting and consulting firms

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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
Corporate rating	Standard and Poors BBB+ / Stable / A-2
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.

About Defence Bank

Defence Bank commenced operations in March 1975 as Defence Force Credit Union Limited (Defcredit) before changing its name to Defence Bank in 2012. Today, Defence Bank has 43 branches around Australia.

Unlike many other financial institutions, Defence Bank doesn't exist to make profits for shareholders. We're here to focus on your financial needs, rather than being driven to make profits for shareholders. We re-invest our profits back into the bank to make sure we give you the service and competitive products you deserve.

Defence Bank offers financial products and services to not only the Defence Force, but the broader community as well. With more than 90,000 members and more than $1.35 billion in assets under management, Defence Bank is one of Australia's larger member-owned banks.

We're here to help

It's easy and convenient to contact us.
Here's how:

1800 033 139, 8am to 8pm AEST weekdays

defencebank.com.au

Visit your local Defence Bank branch

info@defencebank.com.au

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