DEFENCE BANK ANNUAL FINANCIAL REPORT 2015/2016

Defence Bank

Contents

Directors' report	3
Consolidated statement of profit or loss and other comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	12
Notes to the financial statements	13
Directors' declaration	51
Independent auditor's report	52
Auditor’s independence declaration	54
General information	55

Directors' report

The directors present their report together with the financial statements of Defence Bank Limited ("Defence Bank" or "the Bank") and the consolidated financial statements for the consolidated group ("the Group") comprising Defence Bank Limited and its controlled entities, for the financial year ended 30 June 2016. 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 in office 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) Paul MULRANEY, CSC	BCom, MSc (Def Studies), CPA, FAICD, psc *(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 24 November 2013.
Mr Jon Michael LINEHAN	BEc(Hons), MCom, LLB, FAICD, SA Fin *(Managing Director and Chief Executive Officer)*	Initially appointed to the Board on 30 January 2015.
Ms Frances Helen RAYMOND	BCom, MBA, FCA, FAICD, GDPPM, FSAA *(Chair of the Audit Committee and Deputy Chair of the Board)*	Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 24 November 2014.
Mr Bruce Andrew MURPHY	BSc, MCom, PGD, CAIA, GAICD *(Chair of the Risk and Compliance Committee)*	Initially appointed to the Board on 5 May 2012. Most recently elected to the Board on 24 November 2013.
Lieutenant Colonel Craig Duncan MADDEN	BA, MMgt, DipMilEng, FAICD, psc	Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 24 November 2014.
Lieutenant RANR Peter John MASON	DipAppSc, GradDipCompStud, MACS(snr), SF Fin, MAICD	Initially elected to the Board on 24 November 2013.
Ms Anne Myers	MBA, AGSM, GAICD	Initially appointed to the Board on 23 November 2015.
Ms Joan Fitzpatrick	BA (Hons) LLB, ANZIIF Fellow, CIP, GAICD	Initially appointed to the Board on 23 November 2015.
Group Captain Callum Soutar BROWN	BA, MBA, DBA, MDefStud, FAICD, MAHRI, psc	Initially elected to the Board on 25 November 1996. Resigned from the Board 23 November 2015.

Directors' report

Information about the directors (continued)

Group Captain (Retired) David Cyril PAYNE	BEc (ANU), MSc (USAFIT), DipTpt, GradDipStratStud, FAICD, jssc, psc	Initially appointed to the Board on 6 May 1988. Resigned from the Board 23 November 2015.

Information about the company secretaries

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

Name	Qualifications and Roles	Appointment period
Dean John BARTON	BCom, F Fin, CPA *(Chief Financial Officer)*	Appointed 23 September 2011.
Amanda Mary GORE	BA, LLB, LLM (IP), GAICD	Appointed 30 January 2015.

Directors' meetings

The number of Board and Committee meetings during the year attended by each director, in their capacity as a director, were as follows:

Directors	Board		Committees									
			Audit		Risk and Compliance		Nominations		Remuneration		Governance	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
P Mulraney	9	9	2	2	-	-	-	-	1	1	1	1
C D Madden	9	8	-	-	5	5	-	-	1	1	4	4
F H Raymond	9	9	4	4	5	5	-	-	1	1	3	3
B A Murphy	9	9	4	4	5	5	-	-	-	-	3	3
C S Brown	5	5	-	-	-	-	-	-	-	-	-	-
D C Payne	5	4	-	-	2	1	-	-	-	-	-	-
P J Mason	9	7	4	2	-	-	-	-	-	-	-	-
A Myers	4	4	2	2	-	-	-	-	-	-	-	-
J Fitzpatrick	4	4	-	-	3	3	-	-	-	-	-	-
J M Linehan	9	9	-	-	-	-	-	-	-	-	4	4

Directors' report

Principal activities

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

Review of operations

a. Operating profit

During the financial year the Group earned a net profit of $10,002 thousand (2015: $8,743 thousand) after providing $4,427 thousand (2015: $3,665 thousand) for income tax expense.

b. Deposit and lending growth

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

	2016 $000	2015 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	1,780,500	1,607,594	172,906	10.8
Total deposits	1,468,361	1,450,025	18,336	1.3
Total equity	150,214	140,212	10,002	7.1
Net loans and advances	1,501,443	1,335,277	166,166	12.4
Securitised housing loans (off balance sheet)	26,034	33,918	(7,884)	(23.2)
Total loans and advances (on and off balance sheet)	1,527,477	1,369,195	158,282	11.6

c. Branch network

The Bank maintains a network of 40 branches which is the largest branch network in the Australian Defence Force. The Bank remains committed to its branch network and during the financial year celebrated the official opening of the refurbished East Sale branch. The East Sale branch showcases the Banks 'Branch of the Future' design which provides a casual atmosphere and incorporates dedicated zones that cater to all our members banking needs.

d. Product development

The Bank undertakes continual review of its product offering to ensure that members are provided with the best possible products. During the financial year the Bank introduced the Everyday Access account. The Everyday Access account offers members a transaction account with increased flexibility and lower fees for their day to day banking needs. The Bank also introduced redi2PAY which allows members to use their Android device to tap and pay for purchases up to $100.

e. Defence Bank Foundation

The Bank continued its support of the Defence Bank Foundation which was established as an independent charity to help injured, wounded and disadvantaged serving and former Australian Defence Force personnel and their families. The Bank undertakes all administrative functions for the Foundation as well as co-ordinating fund raising activites on behalf of the Foundation.

f. On-Line services

The Bank understands that many of its members are geographically dispersed and has continued to focus on improving its online experience for our remote members. During the financial year the Bank introduced upgrades to its Internet Banking and Mobile Banking applications as well as upgrades to its Internet Lending portal which allows more convenient and efficient lodgement of online loan applications. The Bank also introduced web-chat functionality which complements the existing video and voice call centre communication channels.

g. Community Involvement

The Bank has continued to support the Defence Community through its sponsorship of events as diverse as the K-Series, Christmas Treats and Army Art as well as through donations to organisations such as Legacy and the Salvation Army Sallyman Trucks. The Bank considers itself a proud member of the Defence Community and remains committed to giving back to the community it serves.

h. Staff engagement

The Bank surveys its staff on an annual basis and for the third year in a row achieved staff engagement results of over 80%, which places the Bank in the top quartile of high performing organisations.

Directors' report

Review of operations (continued)

i. Planning

The Board of directors and executive managers met in March 2016 to consider issues critical to the continued growth and development of the Group. The Board and executive managers are aware of their obligation to ensure that the Group continues to provide relevant and convenient products and service to our members, whilst 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 Group during the financial year.

Likely developments and expected results

The Group'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 Group.

Dividends

It is not the policy of the Board to recommend a dividend and no dividends were declared or payable during the financial year or prior year.

Contracts in which directors have an interest

Since 1 July 2015, 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 Group 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. The Bank has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Bank, or of any related body corporate, against a liability incurred as such an officer or auditor. 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 54.

Directors' report

Rounding of amounts

The Group 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.

P Mulraney	F Raymond
Director	Director
16 September 2016	16 September 2016

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2016

		The Group		The Bank	
	Notes	2016 $000	2015 $000	2016 $000	2015 $000
Income					
Interest income	5	77,047	75,407	76,857	75,292
Interest expense	5	(33,318)	(35,023)	(33,318)	(35,023)
Net interest income		43,729	40,384	43,539	40,269
Other income	6	9,242	9,863	9,983	10,181
		52,971	50,247	53,522	50,450
Expenses					
Personnel expenses	6	18,749	19,198	18,749	19,198
Depreciation and amortisation expense	6	1,082	978	1,082	978
Impairment losses on loans and advances	14	166	209	166	209
Other expenses	6	18,545	17,454	18,445	17,414
		38,542	37,839	38,442	37,799
Profit before income tax		14,429	12,408	15,080	12,651
Income tax expense	7	4,427	3,665	4,427	3,665
Profit for the year from continuing operations		10,002	8,743	10,653	8,986
Other comprehensive income		-	-	-	-
Total comprehensive income		10,002	8,743	10,653	8,986

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2016

	Notes	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Assets					
Cash and cash equivalents	9	91,990	67,755	79,683	62,828
Investments	10	177,812	195,304	177,812	195,304
Equity investments	11	1,639	1,639	1,639	1,639
Trade and other receivables	13	1,922	1,611	15,482	7,140
Loans and advances	14	1,501,443	1,335,277	1,501,443	1,335,277
Property, plant and equipment	15	2,326	2,376	2,326	2,376
Deferred tax assets	16	2,202	2,110	2,202	2,110
Intangible assets	17	539	696	539	696
Other assets	18	627	826	627	826
		1,780,500	1,607,594	1,781,753	1,608,196
Liabilities					
Borrowings	19	146,034	-	146,034	-
Deposits	20	1,468,361	1,450,025	1,468,361	1,450,025
Trade and other payables	21	10,635	11,949	10,635	11,949
Current tax liabilities	22	384	890	384	890
Provisions	23	4,872	4,518	4,872	4,518
		1,630,286	1,467,382	1,630,286	1,467,382
Net assets		150,214	140,212	151,467	140,814
Equity					
Share capital	24	907	880	907	880
Reserves	25	149,307	139,332	150,560	139,934
Retained earnings	26	-	-	-	-
		150,214	140,212	151,467	140,814

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the financial year ended 30 June 2016

	The Group 2016				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2015	880	3,142	136,190	-	140,212
Transfer on redemption of redeemable member shares	27	-	-	(27)	-
Transfer to general reserve for credit losses	-	516	(516)	-	-
Profit for the financial year	-	-	-	10,002	10,002
Transfer to general reserve	-	-	9,975	(9,975)	-
Balance at 30 June 2016	907	3,658	145,649	-	150,214

	The Group 2015				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2014	847	3,083	127,539	-	131,469
Transfer on redemption of redeemable member shares	33	-	-	(33)	-
Transfer to general reserve for credit losses	-	59	(59)	-	-
Profit for the financial year	-	-	-	8,743	8,743
Transfer to general reserve	-	-	8,710	(8,710)	-
Balance at 30 June 2015	880	3,142	136,190	-	140,212

Consolidated statement of changes in equity

for the financial year ended 30 June 2016

	The Bank				
	2016				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2015	880	3,142	136,792	-	140,814
Transfer on redemption of redeemable member shares	27	-	-	(27)	-
Transfer to general reserve for credit losses	-	516	(516)	-	-
Profit for the financial year	-	-	-	10,653	10,653
Transfer to general reserve	-	-	10,626	(10,626)	-
Balance at 30 June 2016	907	3,658	146,902	-	151,467

	The Bank				
	2015				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2014	847	3,083	127,898	-	131,828
Transfer on redemption of redeemable member shares	33	-	-	(33)	-
Transfer to general reserve for credit losses	-	59	(59)	-	-
Profit for the financial year	-	-	-	8,986	8,986
Transfer to general reserve	-	-	8,953	(8,953)	-
Balance at 30 June 2015	880	3,142	136,792	-	140,814

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the financial year ended 30 June 2016

	Notes	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Cash flows from operating activities					
Interest received		76,941	75,544	76,751	75,429
Fees and commissions received		9,366	9,804	9,366	9,756
Other income received		47	41	788	359
Dividends received		232	232	232	232
Recoveries on loans previously written off		167	177	167	177
Goods and services tax refunded		332	376	332	307
Interest paid		(34,723)	(35,140)	(34,723)	(35,140)
Payments to suppliers and employees		(37,514)	(36,839)	(37,414)	(36,681)
Tax collected on retirement savings accounts		1,812	1,767	1,812	1,767
Income tax paid		(6,837)	(4,936)	(6,837)	(4,936)
Cash flows from operating activities before changes in operating assets and liabilities		9,823	11,026	10,474	11,270
Net decrease / (increase) in investments		17,492	(1,579)	17,492	(1,579)
Net increase in loans and advances		(166,332)	(140,890)	(166,332)	(140,890)
Net (increase) / decrease in other operating receivables		(153)	2	(8,184)	223
Net increase in deposits		18,336	133,237	18,336	133,237
Net (decrease) / increase in other operating payables		(100)	97	(100)	97
Net cash (used in) / provided by operating activities	27	(120,934)	1,893	(128,314)	2,358
Cash flows from investing activities					
Proceeds on disposal of property, plant and equipment		10	31	10	31
Purchases of property, plant and equipment		(685)	(917)	(685)	(917)
Purchases of intangible assets		(190)	(473)	(190)	(473)
Net cash used in investing activities		(865)	(1,359)	(865)	(1,359)
Cash flows from financing activities					
Net increase in borrowings		146,034	-	146,034	-
Net increase in cash and cash equivalents		24,235	534	16,855	999
Cash and cash equivalents at the beginning of the financial year		67,755	67,221	62,828	61,829
Cash and cash equivalents at the end of the financial year	9	91,990	67,755	79,683	62,828

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2016

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.
ALLC means the Defence Bank Asset, Liability and Liquidity Committee.
APRA means the Australian Prudential Regulation Authority.
Cuscal means Cuscal Limited.
GST means Goods and Services Tax.
IASB means the International Accounting Standards Board.
IFRIC means International Financial Reporting Interpretations Committee.
IFRS means International Financial Reporting Standards.
Integris means Integris Securitisation Service Pty Limited.
RBA means the Reserve Bank of Australia.
RMBS means Residential Mortgage Backed Securities.

1. General information

The Group comprises Defence Bank Limited ("Defence Bank" or "the Bank") and its controlled entities as disclosed within the basis of consolidation (refer to note 3c). The Bank is a limited company incorporated in Australia. The principal place of business is Level 5, 31 Queen Street, Melbourne Vic 3000.

The principal activities of the Group during the reporting period were the raising of funds and the application of those funds in providing financial products and services to its members.

2. Application of new and revised accounting standards

a. Amendments to AASBs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to AASBs issued by the AASB that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

Standard / Interpretation	Impact
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality'	This completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that standard to effectively be withdrawn. These amendments do not have a material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.
AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'	Amends AASB 128 Investments in Associates and Joint Ventures to align the relief available in AASB 10 Consolidated Financial Statements and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. Amendments are made to AASB 128 to require that the ultimate Australian entity shall apply the equity method in accounting for the interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities. As the Group does not have a foreign parent, the application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

b. Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The potential effect of the revised Standards / Interpretations on the Group's financial statements have not been determined. Unless otherwise stated below, the Group does not intend to adopt the standard early and as such, the impact is yet to be determined.

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 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2018	30 June 2019
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-6 'Amendments to Australian Accounting Standards – Agriculture: Bearer Plants'	1 January 2016	30 June 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

3. Significant accounting policies

a. Statement of compliance

These 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 the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group and the Bank comply with IFRS.

The financial statements were authorised for issue by the directors on 16 September 2016.

b. Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank, being the parent entity and its controlled entities. Combined, the Bank and its controlled entities are referred to in these financial statements as the Group. The name(s) of the controlled entities are disclosed within note 12 to these financial statements. Each controlled entity has a 30 June financial year end and is accounted for by the Bank at cost. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Controlled entities pertain to subsidiaries and are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

3. Significant accounting policies (continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

d. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group 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 Group ceases to recognise interest, although the Group 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 12 month period reflecting the average life of a LRI policy. Unearned commissions liability is detailed in note 21 to the financial statements.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

e. Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

f. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

3. Significant accounting policies (continued)

g. Taxation

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

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the consolidated 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 Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated 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 difference arises 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognised in profit or loss, except when 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 equity, respectively.

h. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives used for property, plant and equipment are as follows:

Portable buildings	5 years, 7 months
Leasehold improvements	4 years - 10 years
Plant and equipment	2 years, 6 months - 40 years

Assets under $1,000 are not capitalised but rather expensed.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. Significant accounting policies (continued)

i. Intangible assets

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. The estimated useful life used for intangible assets are as follows:

Computer software	2 years, 6 months - 5 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

j. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

k. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

l. Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant accounting policies (continued)

Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

AFS financial assets

The Group has investments in unlisted shares that are not traded in an active market but are classified as AFS financial assets and stated at cost (because the directors consider that fair value cannot be reliably measured). Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as loans, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables. Objective evidence of impairment for a specific receivable includes significant financial difficulty of a borrower, default or delinquency by a borrower and indicators that a borrower or issuer will enter bankruptcy.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

3. Significant accounting policies (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities, including borrowings, deposits and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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.

m. Goods & Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

n. Securitisation

Where the Group enters into a transaction that substantially transfers all the risk and rewards of ownership of the transferred assets, the Group derecognises the transferred assets. Where a third party originator (Integris) enters into a transaction and funds that transaction and the Group does not carry the risks and rewards of ownership, the Group does not recognise the asset. Where the Group enters into transactions that transfer assets recognised on its consolidated statement of financial position but retains substantially all of the risks and rewards of ownership of the transferred assets, the transferred assets are not derecognised by the Group.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Board are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. Critical judgements in applying accounting policies

The following are critical judgements that the directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Held-to-maturity financial assets

The directors have reviewed the Group's held-to-maturity financial assets in light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold these assets to maturity. The carrying amount of held-to-maturity financial assets is $177,812 thousand (2015: $195,304 thousand). Details of these assets are included in note 10.

b. Critical sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for impairment of loans and advances

Impairment allowances for loans and advances represent management's best assumptions of losses incurred in the loan portfolio at the end of the reporting period. Management is required to exercise judgement in making assumptions and estimates when calculating impairment allowances in both individually and collectively assessed loans and advances.

5. 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:

	The Group		
	2016		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	71,823	1,270	1.77
Investments	176,893	5,135	2.90
Loans and advances	1,416,867	70,642	4.99
		77,047	4.63
Interest bearing liabilities			
Borrowings	74,856	2,341	3.13
Deposits	1,439,553	30,977	2.15
		33,318	2.20
Net interest income		43,729	

	The Group		
	2015		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	58,371	1,231	2.11
Investments	161,000	5,315	3.30
Loans and advances	1,260,602	68,861	5.46
		75,407	5.10
Interest bearing liabilities			
Deposits	1,336,754	35,023	2.62
		35,023	2.62
Net interest income		40,384	

5. Interest income and interest expense (continued)

	The Bank		
	2016		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	60,818	1,080	1.78
Investments	176,893	5,135	2.90
Loans and advances	1,416,867	70,642	4.99
		76,857	4.65
Interest bearing liabilities			
Borrowings	74,856	2,341	3.13
Deposits	1,439,553	30,977	2.15
		33,318	2.20
Net interest income		43,539	

	The Bank		
	2015		
	Average balance $000	Interest amount $000	Average interest rate %
Interest bearing assets			
Cash and cash equivalents	52,681	1,116	2.12
Investments	161,000	5,315	3.30
Loans and advances	1,260,602	68,861	5.46
		75,292	5.10
Interest bearing liabilities			
Deposits	1,336,754	35,023	2.62
		35,023	2.62
Net interest income		40,269	

6. Income and expense

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

	The Group		The Bank	
	2016	2015	2016	2015
	$000	$000	$000	$000
Other income				
Dividends	232	232	232	232
Fee income arising from financial assets	566	693	566	693
Fee income arising from financial liabilities	153	209	153	209
Other transaction fee income	1,975	2,301	1,975	2,301
Other service fee income	2,218	2,443	2,218	2,443
Other fee income	22	21	22	21
Insurance commissions	1,862	1,861	1,862	1,861
Other commissions	1,990	1,856	1,990	1,856
Gain on disposal of property, plant and equipment	10	29	10	29
Bad debts recovered	167	177	167	177
Other income	47	41	788	359
	9,242	9,863	9,983	10,181
Personnel expenses				
Employee benefits	16,698	16,875	16,698	16,875
Provision for employee benefits	407	104	407	104
Termination benefits	181	438	181	438
Other personnel expenses	1,463	1,781	1,463	1,781
	18,749	19,198	18,749	19,198
Depreciation and amortisation expense				
Plant and equipment	346	343	346	343
Buildings and leasehold improvements	389	291	389	291
Computer software	347	344	347	344
	1,082	978	1,082	978
Other expenses				
Loss on disposal of property, plant and equipment	-	37	-	37
Rental - operating leases	1,191	1,210	1,191	1,210
Occupancy expenses	262	262	262	262
Information technology expenses	3,903	3,531	3,903	3,531
External financial transaction processing fees and charges	3,343	4,014	3,343	4,014
Telephone expenses	385	367	385	367
Administration expenses	4,941	4,734	4,941	4,734
Marketing and promotion	2,197	1,738	2,197	1,738
Other expenses from ordinary activities	2,323	1,561	2,223	1,521
	18,545	17,454	18,445	17,414

7. Income tax expense

Income tax expenses recognised in profit or loss:

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Current tax expense:				
in respect of current year	4,486	3,724	4,486	3,724
in respect of prior year	34	20	34	20
Deferred tax income relating to the origination and reversal of temporary differences	(92)	(79)	(92)	(79)
Adjustments recognised in the current year in relation to current tax of prior years	(1)	-	(1)	-
Income tax expense	4,427	3,665	4,427	3,665

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

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Profit before income tax	14,429	12,408	15,080	12,651
Income tax calculated at 30% (2015: 30%)	4,329	3,722	4,524	3,795
Effect of expenses that are not deductible in determining taxable profit	168	12	849	12
Effect of income that is not assessable in determining taxable profit	-	-	(5,185)	(2,515)
Effect of income that is assessable in determining taxable profit	30	30	4,339	2,472
Effect of imputation credits	(99)	(99)	(99)	(99)
Adjustments recognised in the current year in relation to current tax of prior years	(1)	-	(1)	-
Income tax expense	4,427	3,665	4,427	3,665

8. Franking credits balance

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

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Franking account balance as at the end of the financial year at 30% (2015: 30%)	71,482	64,546	71,482	64,546
Franking credits that will decline from the refund of income tax receivable as at the end of the financial year	(1,404)	(876)	(1,404)	(876)
	70,078	63,670	70,078	63,670

Since, under corporations and tax laws, the Group 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.

Notes to the financial statements

for the financial year ended 30 June 2016

9. Cash and cash equivalents

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Cash on hand	2,437	2,501	2,437	2,501
Call deposits with ADIs	77,246	60,327	77,246	60,327
Restricted cash on deposit with ADIs	12,307	4,927	-	-
	91,990	67,755	79,683	62,828

Restricted cash on deposit with ADIs represents cash collections remitted by the Bank to DBL Funding Trust No. 1. The use of these funds is restricted under the terms of the DBL Trusts Master Servicing Deed.

10. Investments

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Term deposits with ADIs	-	34,000	-	34,000
Negotiable certificates of deposit	69,205	81,037	69,205	81,037
Floating rate notes	108,607	80,267	108,607	80,267
	177,812	195,304	177,812	195,304

a. Maturity analysis

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Not longer than three months	71,346	98,083	71,346	98,083
Longer than three months, not longer than one year	37,971	33,705	37,971	33,705
Longer than one year, not longer than five years	68,495	63,516	68,495	63,516
	177,812	195,304	177,812	195,304

11. Equity investments

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Unlisted commercial shares in Cuscal - at cost	1,639	1,639	1,639	1,639

12. Controlled Entities

The parent entity is the Bank. Details in relation to its controlled entities at the end of the financial year are as follows:

Name	Country of establishment	2016 % owned	2015 % owned
DBL Funding Trust No. 1	Australia	100%	100%

Transactions with controlled entities
The following transactions occurred with controlled entities:

	2016 $000	2015 $000
Receipts		
Servicer fee	618	265
Trust manager fee	41	18
Trust administrator fee	82	35
Payments		
Payment of offset interest amounts under terms of trust deed	1,581	320

13. Trade and other receivables

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Interest receivable on investments	1,163	1,057	1,163	1,057
Other operating receivables [1]	256	103	13,816	5,632
Trade debtors [2]	503	451	503	451
	1,922	1,611	15,482	7,140

[1] Other operating receivables primarily consist of funds in transit and distributions from DBL Funding Trust No. 1 which are expected to be settled in full within one month. As such, no interest is charged.

[2] Trade debtors relate to commissions receivable which are expected to be settled in full within 30 days and are non-interest bearing. As at 30 June 2016 there are no past due or impaired trade and other receivables (2015: Nil)

14. Loans and advances

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Overdrafts	5,681	7,209	5,681	7,209
Credit cards	13,110	14,278	13,110	14,278
Term loans	1,482,133	1,314,307	1,482,133	1,314,307
Gross loans and advances	1,500,924	1,335,794	1,500,924	1,335,794
Provision for impairment	(281)	(322)	(281)	(322)
Deferred loan fee income	(945)	(854)	(945)	(854)
Deferred loan origination expenses	1,745	659	1,745	659
Net loans and advances	1,501,443	1,335,277	1,501,443	1,335,277

a. Maturity analysis

Overdrafts	5,681	7,209	5,681	7,209
Not longer than three months	18,277	17,381	18,277	17,381
Longer than three months, not longer than one year	51,751	48,972	51,751	48,972
Longer than one year, not longer than five years	253,922	238,689	253,922	238,689
Longer than five years	1,171,293	1,023,543	1,171,293	1,023,543
	1,500,924	1,335,794	1,500,924	1,335,794

b. Loans by security type

Mortgage over property				
Loan to value ratio up to 80%	861,685	744,840	861,685	744,840
Loan to value ratio over 80% with mortgage insurance	438,829	403,861	438,829	403,861
Loan to value ratio over 80% without mortgage insurance	54,802	34,349	54,802	34,349
	1,355,316	1,183,050	1,355,316	1,183,050
Mortgage over other assets	79,275	77,842	79,275	77,842
Unsecured	66,333	74,902	66,333	74,902
	1,500,924	1,335,794	1,500,924	1,335,794

14. Loans and advances (continued)

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
c. Loans by purpose				
Purchase of residential owner-occupied property	1,214,777	1,070,863	1,214,777	1,070,863
Purchase of residential investment property	139,929	111,796	139,929	111,796
Purchase of commercial property	609	391	609	391
Other	145,609	152,744	145,609	152,744
	1,500,924	1,335,794	1,500,924	1,335,794
d. Provision for impairment				
Balance at the beginning of the financial year	322	373	322	373
Increase in provision for impairment of loans and advances	166	209	166	209
Bad debts written off	(207)	(260)	(207)	(260)
Balance at the end of the financial year	281	322	281	322
Comprising				
Individually assessed provisions	-	2	-	2
Collectively assessed provisions	281	320	281	320
	281	322	281	322

e. Concentration of credit risk

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

The Group has a concentration of credit risk by industry sector to the Australian 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 Group 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 members to facilitate the repayment of loans.

f. Security held on non-accrual loans

During the period the Group took possession of assets through the enforcement of security. Disposal proceeds of these assets amounted to $67 thousand (2015: $37 thousand) and were used to offset associated credit losses. The value of assets obtained through enforcement of security at reporting date was $9 thousand (2015: $13 thousand).

15. Property, plant and equipment

Reconciliation of the movement in the carrying amount of property, plant and equipment is as follows:

	The Group				
	2016				
	Portable buildings $000	Leasehold improvements $000	Plant and equipment $000	Work in progress[3] $000	Total $000
At cost					
Balance at the beginning of the financial year	179	2,377	5,345	-	7,901
Additions	-	229	298	158	685
Disposals	-	-	(67)	-	(67)
Balance at the end of the financial year	179	2,606	5,576	158	8,519
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(958)	(4,388)	-	(5,525)
Depreciation expense	-	(389)	(346)	-	(735)
Eliminated on disposal of assets	-	-	67	-	67
Balance at the end of the financial year	(179)	(1,347)	(4,667)	-	(6,193)
Carrying amount at 30 June 2016	-	1,259	909	158	2,326

	The Group				
	2015				
	Portable buildings $000	Leasehold improvements $000	Plant and equipment $000	Work in progress[3] $000	Total $000
At cost					
Balance at the beginning of the financial year	214	2,045	7,651	-	9,910
Additions	-	468	449	-	917
Disposals	(35)	(136)	(2,755)	-	(2,926)
Balance at the end of the financial year	179	2,377	5,345	-	7,901
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(214)	(798)	(6,766)	-	(7,778)
Depreciation expense	-	(291)	(343)	-	(634)
Eliminated on disposal of assets	35	131	2,721	-	2,887
Balance at the end of the financial year	(179)	(958)	(4,388)	-	(5,525)
Carrying amount at 30 June 2015	-	1,419	957	-	2,376

15. Property, plant and equipment (continued)

	The Bank 2016				
	Portable buildings $000	Leasehold improvements $000	Plant and equipment $000	Work in progress[3] $000	Total $000
At cost					
Balance at the beginning of the financial year	179	2,377	5,345	-	7,901
Additions	-	229	298	158	685
Disposals	-	-	(67)	-	(67)
Balance at the end of the financial year	179	2,606	5,576	158	8,519
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(958)	(4,388)	-	(5,525)
Depreciation expense	-	(389)	(346)	-	(735)
Eliminated on disposal of assets	-	-	67	-	67
Balance at the end of the financial year	(179)	(1,347)	(4,667)	-	(6,193)
Carrying amount at 30 June 2016	-	1,259	909	158	2,326

	The Bank 2015				
	Portable buildings $000	Leasehold improvements $000	Plant and equipment $000	Work in progress[3] $000	Total $000
At cost					
Balance at the beginning of the financial year	214	2,045	7,651	-	9,910
Additions	-	468	449	-	917
Disposals	(35)	(136)	(2,755)	-	(2,926)
Balance at the end of the financial year	179	2,377	5,345	-	7,901
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(214)	(798)	(6,766)	-	(7,778)
Depreciation expense	-	(291)	(343)	-	(634)
Eliminated on disposal of assets	35	131	2,721	-	2,887
Balance at the end of the financial year	(179)	(958)	(4,388)	-	(5,525)
Carrying amount at 30 June 2015	-	1,419	957	-	2,376

[3] Work in progress represents payments for items of property, plant and equipment that as at reporting date are not yet available for use. As such, depreciation has not commenced.

16. Deferred tax assets

The movement in temporary differences during the financial year is as follows:

	The Group 2016 Opening balance $000	The Group 2016 Recognised in profit or loss $000	The Group 2016 Closing balance $000
Provisions for employee benefits not yet deductible	1,346	109	1,455
Provision for impairment on loans not yet deductible	97	(13)	84
Prior year bad debts not yet deductible	126	28	154
Property, plant and equipment	163	134	297
Intangible assets	85	(2)	83
Accrued income not yet earned	304	(51)	253
Accrued expenses not yet deductible	45	(148)	(103)
Prepayments	(56)	35	(21)
	2,110	92	2,202

	The Group 2015 Opening balance $000	The Group 2015 Recognised in profit or loss $000	The Group 2015 Closing balance $000
Provisions for employee benefits not yet deductible	1,272	74	1,346
Provision for impairment on loans not yet deductible	112	(15)	97
Prior year bad debts not yet deductible	142	(16)	126
Property plant and equipment	181	(18)	163
Intangible assets	75	10	85
Accrued income not yet earned	304	-	304
Accrued expenses not yet deductible	22	23	45
Prepayments	(77)	21	(56)
	2,031	79	2,110

16. Deferred tax assets (continued)

	The Bank		
	2016		
	Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,346	109	1,455
Provision for impairment on loans not yet deductible	97	(13)	84
Prior year bad debts not yet deductible	126	28	154
Property, plant and equipment	163	134	297
Intangible assets	85	(2)	83
Accrued income not yet earned	304	(51)	253
Accrued expenses not yet deductible	45	(148)	(103)
Prepayments	(56)	35	(21)
	2,110	92	2,202

	The Bank		
	2015		
	Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,272	74	1,346
Provision for impairment on loans not yet deductible	112	(15)	97
Prior year bad debts not yet deductible	142	(16)	126
Property plant and equipment	181	(18)	163
Intangible assets	75	10	85
Accrued income not yet earned	304	-	304
Accrued expenses not yet deductible	22	23	45
Prepayments	(77)	21	(56)
	2,031	79	2,110

17. Intangible assets

Reconciliation of the movement in the carrying amount of intangible assets is as follows:

	The Group 2016		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	2,950	214	3,164
Additions	-	190	190
Reclassifications	250	(250)	-
Disposals	-	-	-
Balance at the end of the financial year	3,200	154	3,354
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(2,468)	-	(2,468)
Amortisation expense	(347)	-	(347)
Eliminated on disposal of assets	-	-	-
Balance at the end of the financial year	(2,815)	-	(2,815)
Carrying amount at 30 June 2016	385	154	539

	The Group 2015		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	3,824	141	3,965
Additions	-	473	473
Reclassifications	400	(400)	-
Disposals	(1,274)	-	(1,274)
Balance at the end of the financial year	2,950	214	3,164
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(3,398)	-	(3,398)
Amortisation expense	(344)	-	(344)
Eliminated on disposal of assets	1,274	-	1,274
Balance at the end of the financial year	(2,468)	-	(2,468)
Carrying amount at 30 June 2015	482	214	696

17. Intangible assets (continued)

	The Bank 2016 Computer software $000	The Bank 2016 Work in progress[4] $000	The Bank 2016 Total $000
At cost			
Balance at the beginning of the financial year	2,950	214	3,164
Additions	-	190	190
Reclassifications	250	(250)	-
Disposals	-	-	-
Balance at the end of the financial year	3,200	154	3,354
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(2,468)	-	(2,468)
Amortisation expense	(347)	-	(347)
Eliminated on disposal of assets	-	-	-
Balance at the end of the financial year	(2,815)	-	(2,815)
Carrying amount at 30 June 2016	385	154	539

	The Bank 2015 Computer software $000	The Bank 2015 Work in progress[4] $000	The Bank 2015 Total $000
At cost			
Balance at the beginning of the financial year	3,824	141	3,965
Additions	-	473	473
Reclassifications	400	(400)	-
Disposals	(1,274)	-	(1,274)
Balance at the end of the financial year	2,950	214	3,164
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(3,398)	-	(3,398)
Amortisation expense	(344)	-	(344)
Eliminated on disposal of assets	1,274	-	1,274
Balance at the end of the financial year	(2,468)	-	(2,468)
Carrying amount at 30 June 2015	482	214	696

[4] Work in progress represents payments for computer software that as at reporting date are not yet available for use. As such, amortisation has not commenced.

18. Other assets

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Prepayments	627	826	627	826

19. Borrowings

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Securities sold under agreements to repurchase	20,160	-	20,160	-
Secured borrowings (refer to note 31)	125,874	-	125,874	-
	146,034	-	146,034	-

a. Maturity analysis

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
At call	-	-	-	-
Not longer than three months	25,159	-	25,159	-
Longer than three months, not longer than one year	13,918	-	13,918	-
Longer than one year, not longer than five years	53,704	-	53,704	-
Longer than five years	53,253	-	53,253	-
	146,034	-	146,034	-

20. Deposits

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Members' redeemable preference shares	774	781	774	781
Call deposits	592,400	517,317	592,400	517,317
Term deposits	750,702	790,586	750,702	790,586
Electronic certificates of deposit	124,485	141,341	124,485	141,341
	1,468,361	1,450,025	1,468,361	1,450,025

a. Maturity analysis

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
At call	593,174	518,098	593,174	518,098
Not longer than three months	411,869	526,580	411,869	526,580
Longer than three months, not longer than one year	383,443	387,553	383,443	387,553
Longer than one year, not longer than five years	79,875	17,794	79,875	17,794
	1,468,361	1,450,025	1,468,361	1,450,025

b. Concentration of deposits

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

21. Trade and other payables

	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Trade creditors	461	187	461	187
Other operating payables	246	346	246	346
Interest payable	7,654	9,059	7,654	9,059
Accrued expenses	1,322	1,341	1,322	1,341
Unearned commissions	167	71	167	71
Unamortised lease incentive	785	945	785	945
	10,635	11,949	10,635	11,949

Notes to the financial statements

for the financial year ended 30 June 2016

22. Current tax liabilities

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Current tax liabilities	384	890	384	890

23. Provisions

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Provision for employee entitlements	4,850	4,493	4,850	4,493
Other provisions	22	25	22	25
	4,872	4,518	4,872	4,518

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 $2,997 thousand (2015: $2,737 thousand).

24. Share capital

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Balance at the beginning of the financial year	880	847	880	847
Transfer on redemption of redeemable preference shares	27	33	27	33
Balance at the end of the financial year	907	880	907	880

Share capital represents the cumulative amount of redeemable members' shares redeemed by the Group 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 balance represents the amount of profits appropriated to the account.

25. Reserves

a. General reserve

Balance at the beginning of the financial year	136,190	127,539	136,792	127,898
Transfer to the general reserve for credit losses	(516)	(59)	(516)	(59)
Transfer from retained earnings	9,975	8,710	10,626	8,953
Balance at the end of the financial year	145,649	136,190	146,902	136,792

The general reserve comprises the aggregate amount of all retained profits from ordinary activities after income tax since the Group'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 Group.

b. General reserve for credit losses

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Balance at the beginning of the financial year	3,142	3,083	3,142	3,083
Transfer from the general reserve for credit losses	516	59	516	59
Balance at the end of the financial year	3,658	3,142	3,658	3,142

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

26. Retained earnings

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Profit from continuing operations after income tax	10,002	8,743	10,653	8,986
Transfers to share capital upon redemption of redeemable preference shares	(27)	(33)	(27)	(33)
Transfers to general reserve	(9,975)	(8,710)	(10,626)	(8,953)
Retained earnings at the end of the financial year	-	-	-	-

27. Note to the statement of cash flows

For the purpose of the consolidated 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:

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Profit for the year from continuing operations	10,002	8,743	10,653	8,986
Add non-cash items				
Impairment of loans and advances	166	209	166	209
Depreciation of property, plant and equipment	735	634	735	634
Amortisation of intangible assets	347	344	347	344
Decrease / (increase) in assets				
Interest receivable	(106)	137	(106)	137
Trade debtors	(52)	(37)	(52)	(37)
Prepaid expenses	199	(50)	199	(50)
Other operating receivables	(153)	2	(8,184)	224
Deferred tax assets	(92)	(79)	(92)	(79)
Investments	17,492	(1,579)	17,492	(1,579)
Overdraft balances	1,528	456	1,528	456
Credit card balances	1,168	351	1,168	351
Term loans	(169,028)	(141,697)	(169,028)	(141,697)
Increase / (decrease) in liabilities				
Interest payable	(1,405)	(117)	(1,405)	(117)
Trade creditors	274	87	274	87
Accrued expenses	(19)	327	(19)	327
Unamortised lease incentive	(160)	(4)	(160)	(4)
Unearned commissions	96	5	96	5
Provision for employee benefits	357	220	357	220
Current tax liabilities	(506)	574	(506)	574
Other provisions	(3)	25	(3)	25
Members redeemable preference shares	(7)	11	(7)	11
Other operating payables	(100)	97	(100)	97
Call deposits	75,083	37,256	75,083	37,256
Term deposits	(39,884)	65,641	(39,884)	65,641
Electronic certificates of deposit	(16,856)	30,329	(16,856)	30,329
Add / (deduct) cash flows from investing activities included in operating profit				
Gain on disposal of equipment	(10)	(29)	(10)	(29)
Loss on disposal of equipment	-	37	-	37
Net cash (used in) / provided by operating activities	(120,934)	1,893	(128,314)	2,358

28. Expenditure commitments

Operating lease arrangements

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

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Not longer than three months	804	693	804	693
Longer than three months, not longer than one year	2,217	2,078	2,217	2,078
Longer than one year, not longer than five years	8,135	9,813	8,135	9,813
Later than five years	-	680	-	680
	11,156	13,264	11,156	13,264

29. Financial commitments

Outstanding loan commitments

Loans approved but not advanced	32,537	41,867	32,537	41,867
Amounts available for redraw under term loans	132,401	120,257	132,401	120,257
Unused balance of revolving credit facilities	46,335	44,938	46,335	44,938
	211,273	207,061	211,273	207,061

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

30. Registered charge

Cuscal holds a fixed and floating charge over the Group's assets and future undertakings for loan facilities available to the Group. The amount outstanding under this charge as at 30 June 2016 is nil (2015: Nil).

31. Securitisation arrangements

a. Integris Securitisation Services Pty Limited (Integris)

In past financial years, the Group had an arrangement with Integris, a wholly owned subsidiary of Cuscal, whereby it acted as an agent to promote and complete loans on its behalf. During the 2014 financial year the scheme was closed to new loan originations. The Group continues to manage the loans portfolio on behalf of Integris, for which it receives a fee. The Group 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 Group and the Group does not guarantee the payment of interest or principal on these securities. The Group 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 Integris during the reporting period is nil (2015: Nil). The balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $26,034 thousand (2015: $33,918 thousand).

31. Securitisation arrangements (continued)

b. DBL Funding Trust No.1

The Bank has established DBL Funding Trust No. 1, which comprises two series; Repo Series No. 1 and Series 2015-1PP.

Repo Series No. 1 was established in September 2012 to faciliate the Bank's ongoing liquidity management. The Bank transfers eligible mortgage receivables to Repo Series No. 1 and simultaneously purchases the RMBS issued by the Series. The senior RMBS, which are rated AAA(sf) by Moodys, are eligible for sale and repurchase transactions with the RBA and as such enhance the liquidity position of the Bank. During the financial year, $199.5 million of eligible mortgage receivables were transferred to the DBL Trust Repo Series No. 1 (2015: nil). The mortgage receivables transferred to the Repo Series No. 1 have not been derecognised, as the Bank retains substantially all of the risk and rewards of ownership of the transferred assets.

Series 2015-1PP was established in December 2015. The Bank transferred $150.0 million of eligible mortgages to Series 2015-1PP, with Senior A class RMBS issued to a third party, and subordinate B class RMBS issued to the Bank. The mortgage receivables transferred to the 2015 - 1PP Series have not been derecognised, as the Bank retains substantially all of the risk and rewards of ownership of the transferred assets. The outstanding balance of the Senior notes issued by the Series have been recognised as secured borrowings of the Bank and are disclosed in note 19.

32. Remuneration of auditor

	The Group		The Bank	
	2016	2015	2016	2015
	$	$	$	$
Deloitte Touche Tohmatsu				
Audit or review of the financial statements	78,000	67,500	71,000	64,500
Regulatory and compliance engagements	77,143	50,000	73,143	48,000
Tax consulting engagements	16,500	18,975	16,500	18,975
	171,643	136,475	160,643	131,475

Regulatory and compliance engagements include audit or reviews of procedures in relation to Retirement Savings Accounts (RSA), Australian Financial Services Licence (AFSL), securitisation and Australian Prudential Standard (APS) 310.

33. Key management personnel

Compensation of key management personnel

Key management personnel during the financial year comprised eight non-executive directors, one executive director and chief executive officer as well as nine executive managers. The aggregate compensation made to key management personnel of the Group during the financial year is as follows:

	2016	2015
	$	$
Non Executive Directors' remuneration:		
Short-term employee benefits	568,842	489,292
Executive management remuneration:		
Short-term employee benefits	3,265,301	2,800,028
Other long-term benefits	91,479	203,928
Termination benefits	-	3,840
	3,356,780	3,007,796
Total key management personnel remuneration:		
Short-term employee benefits	3,834,143	3,289,320
Other long-term benefits	91,479	203,928
Termination benefits	-	3,840
	3,925,622	3,497,088

34. Financial instruments

a. Categories of financial instruments	The Group 2016 $000	The Group 2015 $000	The Bank 2016 $000	The Bank 2015 $000
Financial assets				
Cash and cash equivalents	91,990	67,755	79,683	62,828
Held-to-maturity financial assets:				
Investments	177,812	195,304	177,812	195,304
Loans and receivables at amortised cost:				
Trade and other receivables	1,922	1,611	15,482	7,140
Loans and advances	1,501,443	1,335,277	1,501,443	1,335,277
Available-for-sale financial assets:				
Equity investments	1,639	1,639	1,639	1,639
	1,774,806	1,601,586	1,776,059	1,602,188
Financial liabilities				
At amortised cost:				
Borrowings	146,034	-	146,034	-
Deposits	1,468,361	1,450,025	1,468,361	1,450,025
Trade and other payables	10,635	11,949	10,635	11,949
	1,625,030	1,461,974	1,625,030	1,461,974

b. Financial risk management objectives

The Group 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 Group 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 auditor on an ongoing basis.

c. Market risk

Market risk is the risk of changes in market prices affecting the Group's income or the value of positions held by the Group. As the Group 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 Group 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, 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 ALLC. The Committee meets regularly to review the interest rate risk position and takes decisions to mitigate identified market risks. Action taken by the ALCC is reported to the Board.

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

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

34. Financial instruments (continued)

The interest rate sensitivity analysis below has been prepared assuming the balance of floating rate assets and liabilities outstanding at the end of the reporting period were outstanding for the whole reporting period. 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:

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Profit	5,233	4,533	5,146	4,498
Equity	5,233	4,533	5,146	4,498

d. Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk for the Group 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. Where collateral is held, it is in the form of mortgage interests over residential property, mortgage insurance and guarantees with regard to housing loans, and other registered securities over motor vehicles with regard to personal lending.

In the case of loans secured by a registered first mortgage, the Group requires borrowers to obtain mortgage insurance to cover the total indebtedness to the Group in situations where the loan to valuation ratio is more than 80%. This policy is only relaxed when there are particular mitigating circumstances. Details of the loan to value ratio of the home loan portfolio are disclosed at note 14.

The Group 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 Group 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 members to facilitate the repayment of loans.

ii. Investments

The risk of losses arising from investments made as part of managing the Group's liquid asset portfolio is mitigated by a series of policies that limit both the counterparties with which the Group transacts 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.

The Group’s maximum exposure to credit risk at reporting date in relation to each class of financial asset is the carrying amount of those assets as indicated below. The credit quality of the Group's financial assets at the end of the financial year are as follows:

34. Financial instruments (continued)

	The Group 2016					
	Current and not impaired				Past due and / or impaired	Total
	Unrated	Rated (Long term, Short term) [5]				
		≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	91,990	-	-	-	91,990
Held-to-maturity financial assets:						
Investments	-	53,159	102,311	22,342	-	177,812
Loans and receivables at amortised cost:						
Trade and other receivables	1,922	-	-	-	-	1,922
Loans and advances	1,500,070	-	-	-	1,373	1,501,443
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,501,992	146,788	102,311	22,342	1,373	1,774,806

	The Group 2015					
	Current and not impaired				Past due and / or impaired	Total
	Unrated	Rated (Long term, Short term) [5]				
		≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	67,755	-	-	-	67,755
Held-to-maturity financial assets:						
Investments	-	63,124	132,180	-	-	195,304
Loans and receivables at amortised cost:						
Trade and other receivables	1,611	-	-	-	-	1,611
Loans and advances	1,333,352	-	-	-	1,925	1,335,277
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,334,963	132,518	132,180	-	1,925	1,601,586

34. Financial instruments (continued)

	The Bank 2016					
	Current and not impaired				Past due and / or impaired	Total
	Unrated	Rated (Long term, Short term) [5] ≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	79,683	-	-	-	79,683
Held-to-maturity financial assets:						
Investments	-	53,159	102,311	22,342	-	177,812
Loans and receivables at amortised cost:						
Trade and other receivables	15,482	-	-	-	-	15,482
Loans and advances	1,500,070	-	-	-	1,373	1,501,443
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,515,552	134,481	102,311	22,342	1,373	1,776,059

	The Bank 2015					
	Current and not impaired				Past due and / or impaired	Total
	Unrated	Rated (Long term, Short term) [5] ≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	62,828	-	-	-	62,828
Held-to-maturity financial assets:						
Investments	-	63,124	132,180	-	-	195,304
Loans and receivables at amortised cost:						
Trade and other receivables	7,140	-	-	-	-	7,140
Loans and advances	1,333,352	-	-	-	1,925	1,335,277
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,340,492	127,591	132,180	-	1,925	1,602,188

[5] 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.

34. Financial instruments (continued)

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

The Group — 2016

	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	840	66	-	33	434	1,373
	840	66	-	33	434	1,373

The Group — 2015

	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	680	385	382	75	403	1,925
	680	385	382	75	403	1,925

The Bank — 2016

	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	840	66	-	33	434	1,373
	840	66	-	33	434	1,373

The Bank — 2015

	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	680	385	382	75	403	1,925
	680	385	382	75	403	1,925

34. Financial instruments (continued)

e. Liquidity risk

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

The Group manages liquidity risk primarily through adherence to Board policies that require the Group to maintain a minimum of 9% 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 ALLC meets regularly to consider the liquidity position of the Group and set rates as appropriate to manage liquidity within policy requirements. As at 30 June 2016 the Minimum Liquid Holdings ratio was 12.73% (2015: 13.66%).

The Group maintains the following borrowing facilities with Cuscal at the reporting date:

	The Group		The Bank	
	2016 $000	2015 $000	2016 $000	2015 $000
Overdraft facility:				
Committed limit	5,000	5,000	5,000	5,000
Undrawn amount	5,000	5,000	5,000	5,000
Total undrawn facilities available	5,000	5,000	5,000	5,000

There are no restrictions on withdrawal of funds under the standby facility.

The Bank also holds RMBS issued by DBL Funding Trust No. 1 Repo Series No. 1, which are eligible for sale and repurchase transactions with the RBA and serve to strengthen the Group's liquidity position. The value of securities outstanding that are eligible for sale and repurchase transaction with the RBA at the end of the reporting period are as follows:

	2016 $000	2015 $000
Aaa(sf) rated RMBS	268,617	127,426

To manage the liquidity risk arising from the financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment grade securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Therefore, the Group believes it is not necessary to disclose a maturity analysis in respect of these assets to enable the users to evaluate the nature and extent of liquidity risk.

34. Financial instruments (continued)

The following tables detail the contractual undiscounted cash flows of financial liabilities at the reporting date. The Group considers that the contracted maturities accurately represent the expected maturities.

The Group 2016

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	Longer than five years $000	Total $000
At amortised cost:						
Borrowings	-	25,277	14,294	56,105	76,001	171,677
Deposits	593,174	416,643	392,984	84,731	-	1,487,532
Trade and other payables	-	10,635	-	-	-	10,635
	593,174	452,555	407,278	140,836	76,001	1,669,844

The Group 2015

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	Longer than five years $000	Total $000
At amortised cost:						
Deposits	518,098	533,843	397,540	19,009	-	1,468,490
Trade and other payables	-	11,949	-	-	-	11,949
	518,098	545,792	397,540	19,009	-	1,480,439

The Bank 2016

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	Longer than five years $000	Total $000
At amortised cost:						
Borrowings	-	25,277	14,294	56,105	76,001	171,677
Deposits	593,174	416,643	392,984	84,731	-	1,487,532
Trade and other payables	-	10,635	-	-	-	10,635
	593,174	452,555	407,278	140,836	76,001	1,669,844

The Bank 2015

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	Longer than five years $000	Total $000
At amortised cost:						
Deposits	518,098	533,843	397,540	19,009	-	1,468,490
Trade and other payables	-	11,949	-	-	-	11,949
	518,098	545,792	397,540	19,009	-	1,480,439

34. Financial instruments (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:

	The Group			
	Carrying amount		Net fair value	
	2016 $000	2015 $000	2016 $000	2015 $000
Financial assets				
Cash and cash equivalents	91,990	67,755	91,990	67,755
Held-to-maturity financial assets				
Investments	177,812	195,304	177,939	195,741
Loans and receivables at amortised cost:				
Trade and other receivables	1,922	1,611	1,922	1,611
Loans and advances	1,501,443	1,335,277	1,500,772	1,335,382
Available-for-sale financial assets:				
Equity investments [6]	1,639	1,639	1,639	1,639
	1,774,806	1,601,586	1,774,262	1,602,128
Financial liabilities				
At amortised cost:				
Borrowings	146,034	-	143,911	-
Deposits	1,468,361	1,450,025	1,470,048	1,451,327
Trade and other payables	10,635	11,949	10,635	11,949
	1,625,030	1,461,974	1,624,594	1,463,276

	The Bank			
	Carrying amount		Net fair value	
	2016 $000	2015 $000	2016 $000	2015 $000
Financial assets				
Cash and cash equivalents	79,683	62,828	79,683	62,828
Held-to-maturity financial assets				
Investments	177,812	195,304	177,939	195,741
Loans and receivables at amortised cost:				
Trade and other receivables	15,482	7,140	15,482	7,140
Loans and advances	1,501,443	1,335,277	1,500,772	1,335,382
Available-for-sale financial assets:				
Equity investments [6]	1,639	1,639	1,639	1,639
	1,776,059	1,602,188	1,775,515	1,602,730
Financial liabilities				
At amortised cost:				
Borrowings	146,034	-	143,911	-
Deposits	1,468,361	1,450,025	1,470,048	1,451,327
Trade and other payables	10,635	11,949	10,635	11,949
	1,625,030	1,461,974	1,624,594	1,463,276

[6] Equity investments represents shares in Cuscal Limited (refer to note 11). These shares are carried at cost as their value cannot be reliably measured due to the absence of an active market for the shares.

34. Financial instruments (continued)

	The Group			
	Fair value hierarchy as at 30 June 16			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	91,990	-	-	91,990
Held-to-maturity financial assets				
Investments	-	177,939	-	177,939
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	1,922	1,922
Loans and advances	-	-	1,500,772	1,500,772
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	91,990	177,939	1,504,333	1,774,262
Financial liabilities				
At amortised cost:				
Borrowings	-	-	143,911	143,911
Deposits	-	-	1,470,048	1,470,048
Trade and other payables	-	-	10,635	10,635
	-	-	1,624,594	1,624,594

	The Group			
	Fair value hierarchy as at 30 June 15			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	67,755	-	-	67,755
Held-to-maturity financial assets				
Investments	34,000	161,741	-	195,741
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	1,611	1,611
Loans and advances	-	-	1,335,382	1,335,382
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	101,755	161,741	1,338,632	1,602,128
Financial liabilities				
At amortised cost:				
Borrowings	-	-	-	-
Deposits	-	-	1,451,327	1,451,327
Trade and other payables	-	-	11,949	11,949
	-	-	1,463,276	1,463,276

34. Financial instruments (continued)

	The Bank			
	Fair value hierarchy as at 30 June 16			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	79,683	-	-	79,683
Held-to-maturity financial assets				
Investments	-	177,939	-	177,939
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	15,482	15,482
Loans and advances	-	-	1,500,772	1,500,772
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	79,683	177,939	1,517,893	1,775,515
Financial liabilities				
At amortised cost:				
Borrowings	-	-	143,911	143,911
Deposits	-	-	1,470,048	1,470,048
Trade and other payables	-	-	10,635	10,635
	-	-	1,624,594	1,624,594

	The Bank			
	Fair value hierarchy as at 30 June 15			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	62,828	-	-	62,828
Held-to-maturity financial assets				
Investments	34,000	161,741	-	195,741
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	7,140	7,140
Loans and advances	-	-	1,335,382	1,335,382
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	96,828	161,741	1,344,161	1,602,730
Financial liabilities				
At amortised cost:				
Deposits	-	-	1,451,327	1,451,327
Trade and other payables	-	-	11,949	11,949
	-	-	1,463,276	1,463,276

35. 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 Group's capital ratio at the end of the financial year is as follows:

	The Group		The Bank	
	2016 %	2015 %	2016 %	2015 %
Common Equity Tier 1 ratio	15.8	15.9	15.8	15.9
Total Tier 1 Capital ratio	15.8	15.9	15.8	15.9
Tier 2 Capital ratio	0.4	0.4	0.4	0.4
Total Capital ratio	16.2	16.3	16.2	16.3

As part of its risk management framework, the Group 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.

36. 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 Group.

37. Approval of financial statements

The financial statements were approved by the Board of directors and authorised for issue on 16 September 2016.

Directors' declaration

We, Paul Mulraney and Frances Raymond, 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 performance of Defence Bank for the period ended 30 June 2016.

P Mulraney
Director
16 September 2016

F Raymond
Director
16 September 2016

Deloitte.

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

We have audited the accompanying financial report of Defence Bank Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 8 to 51.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation 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 gives a true and fair view and 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.

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 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 judgement, 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 of the financial report that gives a true and fair view, 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.

Auditor's Independence Declaration

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*, which has been given to the directors of Defence Bank Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte.

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 and consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Mark Stretton
Partner
Chartered Accountants

Melbourne, 16 September 2016

Auditor's independence declaration

Deloitte.

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The Board of Directors
Defence Bank Limited
Level 5, 31 Queen Street
Melbourne VIC 3001

16 September 2016

Dear Board Members

Auditor's Independence Declaration to Defence Bank Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Defence Bank Limited.

As lead audit partner for the audit of the financial statements of Defence Bank Limited for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Mark Stretton
Partner
Chartered Accountant

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 39 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 $1.8 billion in assets under management, Defence Bank is one of Australia's larger member-owned banks.

WE'RE HERE TO HELP

For more information about any of our products and services, or for a no obligation free quote:

1800 033 139 (8am to 8pm AEST weekdays)

visit your local Defence Bank branch

defencebank.com.au

info@defencebank.com.au

Video call app

Defence Bank Limited
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Melbourne VIC 3000

AFR16 (11/16)

Defence Bank