2017-2018
Annual Financial Report

Defence Bank

Contents

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 2018. 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
Ms Frances Helen RAYMOND	BCom, MBA, FCA, FAICD, GDPPM, FSAA *(Chair of the Board and Chair of the Remuneration Committee)*	Initially appointed to the Board on 2 December 2010. Most recently re-elected to the Board on 20 November 2017.
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 re-elected to the Board on 21 November 2016.
Ms Anne MYERS	MBA (AGSM), GAICD *(Chair of the Audit Committee)*	Initially appointed to the Board on 23 November 2015.
Ms Joan FITZPATRICK	BA (Hons), LLB, ANZIIF Fellow, CIP, FAICD *(Chair of the Governance Committee)*	Initially appointed to the Board on 23 November 2015.
Lieutenant Colonel Craig Duncan MADDEN	BA, MMgt (Defence Studies) , GradCert Applied Engr Practice, FAICD, psc	Initially elected to the Board on 28 November 2005. Most recently re-elected to the Board on 20 November 2017.
Lieutenant RANR Peter John MASON	DipAppSc, GradDipCompStud, MACS(snr), SF Fin, MAICD	Initially elected to the Board on 24 November 2013. Most recently re-elected to the Board on 21 November 2016.
Commodore RAN Ian Gordon MURRAY	BA, GradDipHRM, MDefStud, MA, MBA, GAICD, CAHRI, FCILT, psc	Initially elected to the Board on 21 November 2016.
Mr Jon Michael LINEHAN	BEc(Hons), MCom, LLB, FAICD, SA Fin	Initially appointed to the Board on 30 January 2015. Ceased to be a director 26 July 2017.

Directors' report

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, FFin, FCPA *(Chief Financial Officer)*	Appointed 23 September 2011.
Manipos SIMOS	B. Bus. Accounting, Grad. Dip. Banking and Finance *(Chief Risk Officer)*	Appointed 16 September 2016.

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
F H Raymond	9	9	-	-	-	-	-	-	1	1	4	4
B A Murphy	9	9	3	3	5	5	1	1	1	1	4	4
A Myers	9	9	3	3	5	5	-	-	1	1	-	-
J Fitzpatrick	9	9	3	3	-	-	-	-	-	-	4	4
C D Madden	9	8	-	-	5	4	-	-	-	-	-	-
P J Mason	9	9	3	3	-	-	-	-	-	-	-	-
I Murray	9	8	-	-	5	4	-	-	-	-	-	-
J M Linehan	1	-	-	-	-	-	-	-	-	-	1	-

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 $9,794 thousand (2017: $9,410 thousand) after providing $4,167 thousand (2017: $3,766 thousand) for income tax expense.

b. Deposit and lending growth

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

	2018 $000	2017 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	2,277,826	2,031,528	246,298	12.1
Total deposits	1,953,896	1,741,142	212,754	12.2
Total equity	169,418	159,624	9,794	6.1
Net loans and advances	1,948,553	1,711,714	236,839	13.8
Securitised housing loans (off balance sheet)	15,069	19,017	(3,948)	(20.8)
Total loans and advances (on and off balance sheet)	1,963,622	1,730,731	232,891	13.5

Directors' report

Review of operations (continued)

c. Branch network

The Bank maintains a network of 39 branches which is the largest branch network in the Australian Defence Force (ADF) . During the financial year refurbished five branches utilising the Bank's 'Branch of the Future' design which provides a casual atmosphere and incorporates dedicated zones that cater to all our members banking needs. This takes to 18 the number of branches that have now been refurbished using the Bank's 'Branch of the Future' design.

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 was one of the first financial institutions in Australia to go live on the New Payments Platform (NPP) The NPP offers members the ability to make real time, instantaneous payments using the Bank's mobile or internet banking platforms. In addition, the Bank adopted the NPP's first overlay service, Pay ID, which allows members to link their phone number or e-mail address to their Defence Bank account giving them the option to provide their Pay ID rather than their account number to receive payments.

e. Defence Bank Foundation and Defence Community Dogs

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 ADF personnel and their families. The Bank undertakes all administrative functions for the Foundation as well as co-ordinating fund-raising activities on behalf of the Foundation. The primary beneficiary of the Foundation's activities throughout the financial year was Defence Community Dogs Pty Limited.

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 released two major upgrades to its mobile banking App which introduced significantly enhanced functionality, such as the ability to schedule payments and a new way to transfer funds through OSKO and PayID. These payment services combined with the Bank's existing digital wallet payment options such as Apple Pay, Google Pay and Samsung Pay provide members with a range of payment options that exceed those currently offered by Australia's largest financial institutions.

g. Community Involvement

The Bank has continued to support the Defence Community through its sponsorship of events as diverse as the K-Series, Air Power Conference, DCO welcome days, HMAS Stirling Walk to Work and the NT Officers Annual Ball. The Bank also supports the Defence Community 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 this year outsourced the survey to Insync, an independent research agency. Staff engagement was measured at 76% which places the Bank in the top decile of peer financial services organisations.

i. Defence Home Ownership Assistance Scheme (DHOAS)

Following re-appointment as a DHOAS panel lender in 2017 the Bank has continued to focus on providing eligible Defence personnel competitive home loans under this scheme. Over the financial year the Bank has experienced strong growth in lending, both in absolute terms and as a share of the overall scheme.

j. Xcelerate Program

During the financial year the Bank embarked on the Xcelerate program which is a combined group of initiatives focused on understanding and enhancing the member experience. This has included the establishment of nationwide focus groups followed by in-depth, online, member surveys. The purpose of this research is to identify opportunities to reduce member effort and improve member experience. To measure our success the Bank has implemented monthly surveys to monitor Member Effort and Net Promotor Score.

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.

Directors' report

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 2017, 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 officers 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 57.

Rounding of amounts

The Group is a company of the kind referred to in ASIC Corporations (Rounding in financial / directors' reports) Instrument 2016/191, dated 24 March 2016. In accordance with that Instrument, 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.

F Raymond
Director
17 September 2018

B Murphy
Director
17 September 2018

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2018

	Notes	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Income					
Interest income	5	81,393	75,376	81,194	75,199
Interest expense	5	(37,121)	(33,671)	(37,121)	(33,671)
Net interest income		44,272	41,705	44,073	41,528
Other income	6	8,201	8,581	9,186	9,367
		52,473	50,286	53,259	50,895
Expenses					
Personnel expenses	6	20,173	19,829	20,173	19,829
Depreciation and amortisation expense	6	1,528	1,100	1,528	1,100
Impairment losses on loans and advances	14	237	383	237	383
Other expenses	6	16,574	15,798	16,445	15,689
		38,512	37,110	38,383	37,001
Profit before income tax		13,961	13,176	14,876	13,894
Income tax expense	7	4,167	3,766	4,167	3,766
Profit for the year from continuing operations		9,794	9,410	10,709	10,128
Other comprehensive income		-	-	-	-
Total comprehensive income		9,794	9,410	10,709	10,128

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2018

	Notes	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Assets					
Cash and cash equivalents	9	89,680	94,102	74,781	81,567
Investments	10	228,760	215,556	228,760	215,556
Equity investments	11	1,639	1,639	1,639	1,639
Trade and other receivables	13	835	575	18,620	15,081
Loans and advances	14	1,948,553	1,711,714	1,948,553	1,711,714
Property, plant and equipment	15	4,481	4,134	4,481	4,134
Deferred tax assets	16	2,433	2,485	2,433	2,485
Intangible assets	17	839	641	839	641
Other assets	18	606	682	606	682
		2,277,826	2,031,528	2,280,712	2,033,499
Liabilities					
Borrowings	19	146,213	122,892	146,213	122,892
Deposits	20	1,953,896	1,741,142	1,953,896	1,741,142
Trade and other payables	21	3,446	2,492	3,446	2,492
Current tax liabilities		23	180	23	180
Provisions	22	4,830	5,198	4,830	5,198
		2,108,408	1,871,904	2,108,408	1,871,904
Net assets		169,418	159,624	172,304	161,595
Equity					
Share capital	23	985	943	985	943
Reserves	24	168,433	158,681	171,319	160,652
Retained earnings	25	-	-	-	-
		169,418	159,624	172,304	161,595

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the financial year ended 30 June 2018

	The Group				
	2018				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2017	943	4,115	154,566	-	159,624
Transfer on redemption of redeemable member shares	42	-	-	(42)	-
Transfer to general reserve for credit losses	-	586	(586)	-	-
Profit for the financial year	-	-	-	9,794	9,794
Transfer to general reserve	-	-	9,752	(9,752)	-
Balance at 30 June 2018	985	4,701	163,732	-	169,418

	The Group				
	2017				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2016	907	3,658	145,649	-	150,214
Transfer on redemption of redeemable member shares	36	-	-	(36)	-
Transfer to general reserve for credit losses	-	457	(457)	-	-
Profit for the financial year	-	-	-	9,410	9,410
Transfer to general reserve	-	-	9,374	(9,374)	-
Balance at 30 June 2017	943	4,115	154,566	-	159,624

Consolidated statement of changes in equity

for the financial year ended 30 June 2018

	The Bank 2018				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2017	943	4,115	156,537	-	161,595
Transfer on redemption of redeemable member shares	42	-	-	(42)	-
Transfer to general reserve for credit losses	-	586	(586)	-	-
Profit for the financial year	-	-	-	10,709	10,709
Transfer to general reserve	-	-	10,667	(10,667)	-
Balance at 30 June 2018	985	4,701	166,618	-	172,304

	The Bank 2017				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2016	907	3,658	146,902	-	151,467
Transfer on redemption of redeemable member shares	36	-	-	(36)	-
Transfer to general reserve for credit losses	-	457	(457)	-	-
Profit for the financial year	-	-	-	10,128	10,128
Transfer to general reserve	-	-	10,092	(10,092)	-
Balance at 30 June 2017	943	4,115	156,537	-	161,595

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the financial year ended 30 June 2018

	Notes	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Cash flows from operating activities					
Interest received		81,218	75,670	81,019	75,493
Fees and commissions received		8,592	8,341	8,592	8,341
Other income received		263	447	1,248	1,233
Dividends received		137	232	137	232
Recoveries on loans previously written off		113	120	113	120
Goods and services tax refunded		508	446	508	446
Interest paid		(36,630)	(31,712)	(36,630)	(31,712)
Payments to suppliers and employees		(37,846)	(36,826)	(37,717)	(36,717)
Tax collected on retirement savings accounts		70	1,839	70	1,839
Income tax paid		(4,342)	(6,092)	(4,342)	(6,092)
Cash flows from operating activities before changes in operating assets and liabilities		12,083	12,465	12,998	13,183
Net increase in investments		(13,004)	(36,986)	(13,004)	(36,986)
Net increase in loans and advances		(237,076)	(210,645)	(237,076)	(210,645)
Net (increase) / decrease in other operating receivables		(24)	111	(3,303)	(835)
Net increase in deposits		211,949	263,745	211,949	263,745
Net increase in other operating payables		108	41	108	41
Net cash (used in) / provided by operating activities	26	(25,964)	28,731	(28,328)	28,503
Cash flows from investing activities					
Proceeds on disposal of property, plant and equipment		14	19	14	19
Purchases of property, plant and equipment		(1,555)	(2,569)	(1,555)	(2,569)
Purchases of intangible assets		(527)	(452)	(527)	(452)
Net cash used in investing activities	15	(2,068)	(3,002)	(2,068)	(3,002)
Cash flows from financing activities					
Net increase / (decrease) in borrowings	19	23,635	(23,719)	23,635	(23,719)
Net (decrease) / increase in cash and cash equivalents		(4,397)	2,010	(6,761)	1,782
Cash and cash equivalents at the beginning of the financial year		94,000	91,990	81,465	79,683
Cash and cash equivalents at the end of the financial year	9	89,603	94,000	74,704	81,465

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2018

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.
LVR means Loan to Value Ratio
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 2017, and therefore relevant for the current year end.

Standard / Interpretation	Impact
AASB 1048 'Interpretation of Standards'	The Group has applied the new principal version of AASB 1048 providing an up-to-date listing of Australian Interpretations, including Interpretation 22 *Foreign Currency Transactions and Advance Consideration* and Interpretation 23 *Uncertainty over Income Tax Treatments*. The application of these amendments has had no impact on the Group's consolidated financial statements as this is a service standard that ensures there is no difference between the status of Interpretations in the hierarchy between IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial

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

Standard / Interpretation	Impact
	statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of borrowings (note 19). A reconciliation between the opening and closing balances of these items is provided in note 19. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 19, the application of these amendments has had no impact on the Group's consolidated financial statements.
AASB 2017-2 'Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016'	Amends AASB 12 *Disclosure of Interests in Other Entities* to clarify that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

b. Standards and Interpretations in issue not yet adopted

In addition, at the date of authorisation of the financial statements, the following IASB Standards and IFRC Interpretations were on issue but not yet effective, and the Australian equivalent Standards and Interpretations had not been issued. Unless otherwise stated below, the Group does not intend to adopt the standard early and the impact and potential effect of the revised Standards / Interpretations on the Group's financial statements are immaterial.

Annual Improvements to IFRS Standards 2015-2017 Cycle:

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 (refer below)	1 January 2018	30 June 2019
AASB 15 ‘Revenue from Contracts with Customers’ and the relevant amending standards (refer below)	1 January 2018	30 June 2019
AASB 16 ‘Leases"	1 January 2019	30 June 2020
Interpretation 23 – 'Uncertainty over Income Tax Treatments’	1 January 2019	30 June 2020
Annual Improvements to IFRS - IAS 12 and 33	1 January 2019	30 June 2020

AASB 9 *Financial Instruments*

AASB 9 introduces new requirements for the classification, measurement and derecognition of financial assets and liabilities, and for general hedge accounting. It also addresses impairment requirements for financial assets and introduces a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of AASB 9:

i. All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally at FVTOCI. All other debt investments and equity investments are measured at their fair value through profit or loss at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination, to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

ii. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, AASB 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AASB 139, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

iii. In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

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

b. Standards and Interpretations in issue not yet adopted (continued)

iv. The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

AASB 9 applies to annual periods beginning on or after 1 January 2018. Based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2018 and on the basis of the facts and circumstances that exist at that date, management has performed a preliminary assessment of the impact of AASB 9 to the Group's consolidated financial statements, as follows:

Classification and measurement

- Term deposits, negotiable certificates of deposits and floating rate notes are classified as held-to-maturity investments and loans are carried at amortised cost. These are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of AASB 9.
- Unlisted shares classified as available-for-sale investments carried at cost are disclosed in Note 11. These shares qualify for designation as measured at FVTOCI under AASB 9. However, there are no accumulated fair value gains or losses, as the shares are measured at cost, subject to any impairment loss. There is no expected impact on the Group's profit or loss, other comprehensive income and total comprehensive income.
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under AASB 139.

Impairment

- In relation to the loans, whether lifetime or 12-month expected credit losses should be recognised would depend on whether there has been a significant increase in credit risk of these items from initial recognition to the date of initial application of AASB 9
- The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade and other receivables and other assets. The directors of the Group expect to recognise 12-month expected credit losses for these items.
- The Group has assessed the likely increase in impairment provisions resulting from the adoption of AASB 9 as between one hundred and two hundred thousand dollars. The estimated increase is based on accounting policies, assumptions and estimation techniques that remain subject to change until the finalisation of the 2019 Annual Financial Report.

Hedge accounting

- The Group has no current hedging relationships and, as such, AASB 9 has no impact on the Group in relation to hedge transactions. However, this will be revisited for updated circumstances.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of AASB 15 is that an entity should recognise revenue, to depict the transfer of promised goods or services to customers, as an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

b. Standards and Interpretations in issue not yet adopted (continued)

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by AASB 15. Clarification has also been given in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- Commission income
- Transaction and service fee income

The Group has undertaken a detailed assessment of the application of AASB15 on the Group's financial statements and determined that the impact is likely to be immaterial to the overall financial results. Member activity dictates the majority of the Commission and Fee income, and the satisfaction of the related performance obligations can be clearly demonstrated in each case. It follows that this income is recognised at the time the service is provided. This current accounting policy is aligned with the requirements of AASB 15, and there will be no impact following the adoption of AASB 15.

The directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

AASB 16 *Leases*

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance, including AASB 117 *Leases* and the related interpretations, when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet), except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected, as operating lease payments under AASB 117 are presented as operating cash flows, whereas under the AASB 16 model the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by AASB 16.

The Interpretation applies to annual reporting periods beginning on or after 1 January 2019. The directors of the Group do not anticipate that the application of AASB 16 will have a material impact on the Group's consolidated financial statements.

Interpretation 23 *Uncertainty over Income Tax Treatments*

Interpretation 23 clarifies the accounting for uncertainties in income taxes.

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ('tax amounts'), when there is uncertainty over income tax treatments under AASB 112 *Income Taxes*.

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

b. Standards and Interpretations in issue not yet adopted (continued)

The Interpretation requires an entity to:

- Use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together
- Assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so
- Determine tax amounts on a basis that is consistent with the tax treatment included in its income tax filings if an entity concludes that it is probable that a particular tax treatment will be accepted by the taxation authorities
- Determine tax amounts using the most likely amount or expected value of the tax treatment (whichever provides better predictions of the resolution of the uncertainty) If an entity concludes that it is not probable that a particular tax treatment will be accepted by the taxation authorities.

The Interpretation applies to annual reporting periods beginning on or after 1 January 2019 and applies on a modified retrospective basis. The directors of the Group do not anticipate that the application of the Interpretation will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Makes amendments to the following Accounting Standards:

- AASB 112 *Income Taxes* to clarify the requirements surrounding when the tax consequences of distributions should be recognised in income tax expense rather than retained earnings
- AASB 133 *Borrowing Costs* to clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments apply to annual reporting periods beginning on or after 1 January 2019 and generally apply on prospective basis. The directors of the Group do not anticipate that the application of the amendments will have a material impact on the Group's consolidated financial statements.

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, Australian 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. 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 17 September 2018.

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.

3. Significant accounting policies (continued)

b. Basis of preparation (continued)

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 Corporations (Rounding in financial / directors' Reports) Instrument 2016/191, dated 24 March 2016. In accordance with that Instrument, amounts in the directors' report and the financial statements are rounded 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.
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.

<u>The Group as lessor</u>

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

3. Significant accounting policies (continued)

e. Leasing (continued)

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.

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.

3. Significant accounting policies (continued)

g. Taxation (continued)

Deferred tax (continued)

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 - 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.

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	2.5 years - 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.

3. Significant accounting policies (continued)

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.

<u>Financial assets</u>

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 loan, receivable or investment, 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 loan, receivable or investment, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis.

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.

3. Significant accounting policies (continued)

l. Financial instruments (continued)

Impairment of financial assets (continued)

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.

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.

Securities sold under agreements to repurchase

Financial assets are pledged as collateral as part of sales and repurchase transactions. When the Group sells a financial asset and enters into an agreement to repurchase the asset at a fixed price on a future date, the arrangement is accounted for as a borrowing and the underlying financial asset continues to be accounted for in the Group's financial statements

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.

3. Significant accounting policies (continued)

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.

o. Reclassifications

Certain amounts in the 2017 financials were reclassified to better reflect the Group's financial position and profit and loss and other comprehensive income as at year-end. Accrued interest previously presented separately within 'Trade and other payables' and 'Trade and other receivables' has been reclassified to be presented as part of the underlying financial instrument, that is, 'Loans and advances' and Borrowings'. Similarly, amounts previously expensed have been included as part of the net interest margin with no impact on net profit or loss. Where required, prior year figures have been restated to present the financial results consistently with the current financial year.

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.

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 $228,760 thousand (2017: $215,556 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 financial assets and liabilities, the amount of interest income or expense and the average effective interest rate:

	The Group 2018		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	86,334	1,232	1.43
Investments	206,156	5,189	2.52
Loans and advances	1,830,785	74,972	4.10
		81,393	3.83
Financial liabilities			
Borrowings	107,638	3,092	2.87
Deposits	1,854,278	34,029	1.84
		37,121	1.89
Net interest income		44,272	

	The Group 2017		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	77,199	1,130	1.46
Investments	186,510	4,823	2.59
Loans and advances	1,593,533	69,423	4.36
		75,376	4.06
Financial liabilities			
Borrowings	119,301	3,363	2.82
Deposits	1,583,932	30,308	1.91
		33,671	1.98
Net interest income		41,705	

	The Bank 2018		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	70,808	1,033	1.46
Investments	206,156	5,189	2.52
Loans and advances	1,830,785	74,972	4.10
		81,194	3.85
Financial liabilities			
Borrowings	107,638	3,092	2.87
Deposits	1,854,278	34,029	1.84
		37,121	1.89
Net interest income		44,073	

5. Interest income and interest expense (continued)

	The Bank		
	2017		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	66,194	953	1.44
Investments	186,510	4,823	2.59
Loans and advances	1,593,533	69,423	4.36
		75,199	4.07
Financial liabilities			
Borrowings	119,301	3,363	2.82
Deposits	1,583,932	30,308	1.91
		33,671	1.98
Net interest income		41,528	

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	
	2018 $000	2017 $000	2018 $000	2017 $000
Other income				
Dividends	137	232	137	232
Fee income arising from financial assets	399	495	399	495
Fee income arising from financial liabilities	178	160	178	160
Other transaction fee income	1,220	1,415	1,220	1,415
Other service fee income	2,014	1,891	2,014	1,891
Other fee income	24	22	24	22
Insurance commissions	1,939	1,771	1,939	1,771
Other commissions	1,909	2,010	1,909	2,010
Gain on disposal of property, plant and equipment	5	18	5	18
Bad debts recovered	113	120	113	120
Other income	263	447	1,248	1,233
	8,201	8,581	9,186	9,367
Personnel expenses				
Employee benefits	17,404	17,876	17,404	17,876
Provision for employee benefits	(362)	118	(362)	118
Termination benefits	624	235	624	235
Other personnel expenses	2,507	1,600	2,507	1,600
	20,173	19,829	20,173	19,829
Depreciation and amortisation expense				
Plant and equipment	367	319	367	319
Buildings and leasehold improvements	832	431	832	431
Computer software	329	350	329	350
	1,528	1,100	1,528	1,100
Other expenses				
Loss on disposal of property, plant and equipment	-	10	-	10
Rental - operating leases	1,352	1,248	1,352	1,248
Occupancy expenses	305	311	305	311
Information technology expenses	4,215	4,032	4,215	4,032
External financial transaction processing fees and charges	3,363	3,245	3,363	3,245
Telephone expenses	320	402	320	402
Administration expenses	2,603	2,497	2,603	2,497
Marketing and promotion	1,866	1,774	1,866	1,774
Other expenses from ordinary activities	2,550	2,279	2,421	2,170
	16,574	15,798	16,445	15,689

7. Income tax expense

Income tax expenses recognised in profit or loss:

	The Group		The Bank	
	2018 $000	2017 $000	2018 $000	2017 $000
Current tax expense:				
in respect of current year	4,110	4,032	4,110	4,032
in respect of prior year	6	157	6	157
Deferred tax income relating to the origination and reversal of temporary differences	52	(283)	52	(283)
Adjustments recognised in the current year in relation to current tax of prior years	(1)	(140)	(1)	(140)
Income tax expense	4,167	3,766	4,167	3,766

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

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Profit before income tax	13,961	13,176	14,876	13,894
Income tax calculated at 30% (2017: 30%)	4,188	3,953	4,463	4,168
Effect of expenses that are not deductible in determining taxable profit	21	22	931	1,011
Effect of income that is not assessable in determining taxable profit	-	-	(6,526)	(5,413)
Effect of income that is assessable in determining taxable profit	18	30	5,359	4,239
Effect of imputation credits	(59)	(99)	(59)	(99)
Adjustments recognised in the current year in relation to current tax of prior years	(1)	(140)	(1)	(140)
Income tax expense	4,167	3,766	4,167	3,766

8. Franking credits balance

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

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Franking account balance as at the end of the financial year at 30% (2017: 30%)	83,872	77,743	83,872	77,743
Franking credits that will decline from the refund of income tax receivable as at the end of the financial year	(1,907)	(1,680)	(1,907)	(1,680)
	81,965	76,063	81,965	76,063

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.

9. Cash and cash equivalents

	The Group		The Bank	
	2018 $000	2017 $000	2018 $000	2017 $000
Cash on hand	2,247	2,307	2,247	2,307
Call deposits with ADIs	72,457	79,158	72,457	79,158
Restricted cash on deposit with ADIs	14,899	12,535	-	-
	89,603	94,000	74,704	81,465
Interest receivable - cash and cash equivalents	77	102	77	102
	89,680	94,102	74,781	81,567

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 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Term deposits with ADIs	19,950	19,950	19,950	19,950
Negotiable certificates of deposit	104,215	99,298	104,215	99,298
Floating rate notes	103,637	95,550	103,637	95,550
	227,802	214,798	227,802	214,798
Interest receivable - investments	958	758	958	758
	228,760	215,556	228,760	215,556

a. Maturity analysis

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Not longer than three months	99,324	84,567	99,324	84,567
Longer than three months, not longer than one year	34,842	45,541	34,842	45,541
Longer than one year, not longer than five years	93,636	84,690	93,636	84,690
	227,802	214,798	227,802	214,798

11. Equity investments

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Unlisted 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	2018 % owned	2017 % owned
DBL Funding Trust No. 1	Australia	100%	100%

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

	2018 $000	2017 $000
Receipts		
Servicer fee	821	655
Trust manager fee	55	44
Trust administrator fee	110	87
Payments		
Payment of offset interest amounts under terms of trust deed	2,629	1,918

13. Trade and other receivables

	The Group		The Bank	
	2018 $000	2017 $000	2018 $000	2017 $000
Other operating receivables [1]	169	145	17,954	14,651
Trade debtors [2]	666	430	666	430
	835	575	18,620	15,081

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 2018 there are no past due or impaired trade and other receivables (2017: Nil)

14. Loans and advances

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Overdrafts	5,204	5,289	5,204	5,289
Credit cards	12,121	12,647	12,121	12,647
Term loans	1,928,017	1,691,600	1,928,017	1,691,600
Gross loans and advances	1,945,342	1,709,536	1,945,342	1,709,536
Provision for impairment	(311)	(289)	(311)	(289)
Deferred loan fee income	(1,011)	(1,000)	(1,011)	(1,000)
Deferred loan origination expenses	4,524	3,458	4,524	3,458
Interest receivable - Loans and advances	9	9	9	9
Net loans and advances	1,948,553	1,711,714	1,948,553	1,711,714

14. Loans and advances (continued)

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
a. Contractual maturity analysis				
Overdrafts	5,204	5,289	5,204	5,289
Not longer than three months	20,991	19,342	20,991	19,342
Longer than three months, not longer than one year	61,489	56,350	61,489	56,350
Longer than one year, not longer than five years	307,141	279,313	307,141	279,313
Longer than five years	1,550,517	1,349,242	1,550,517	1,349,242
	1,945,342	1,709,536	1,945,342	1,709,536
b. Loans by security type				
Mortgage over property				
Loan to value ratio up to 80%	1,278,073	1,053,129	1,278,073	1,053,129
Loan to value ratio over 80% with mortgage insurance	480,090	460,629	480,090	460,629
Loan to value ratio over 80% without mortgage insurance	57,324	55,763	57,324	55,763
	1,815,487	1,569,521	1,815,487	1,569,521
Mortgage over other assets	72,399	77,699	72,399	77,699
Unsecured	57,456	62,316	57,456	62,316
	1,945,342	1,709,536	1,945,342	1,709,536
c. Loans by purpose				
Residential owner-occupied property	1,616,146	1,390,812	1,616,146	1,390,812
Residential investment property	198,975	178,324	198,975	178,324
Commercial property	226	385	226	385
Other	129,995	140,015	129,995	140,015
	1,945,342	1,709,536	1,945,342	1,709,536
d. Loans by state				
New South Wales	413,103	355,427	413,103	355,427
Victoria	247,020	225,987	247,020	225,987
Queensland	656,833	576,489	656,833	576,489
South Australia	140,997	120,091	140,997	120,091
Western Australia	156,362	142,910	156,362	142,910
Tasmania	14,553	12,464	14,553	12,464
Northern Territory	65,545	67,746	65,545	67,746
Australian Capital Territory	250,929	208,422	250,929	208,422
	1,945,342	1,709,536	1,945,342	1,709,536
e. Provision for impairment				
Balance at the beginning of the financial year	289	281	289	281
Increase in provision for impairment of loans and advances	237	383	237	383
Bad debts written off	(215)	(375)	(215)	(375)
Balance at the end of the financial year	311	289	311	289
Comprising				
Individually assessed provisions	19	14	19	14
Collectively assessed provisions	292	275	292	275
	311	289	311	289

14. Loans and advances (continued)

f. 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.

g. 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 $42 thousand (2017: $27 thousand) and were used to offset associated credit losses. The value of assets obtained through enforcement of security at reporting date was $42 thousand (2017: $21 thousand).

15. Property, plant and equipment

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

	The Group				
	2018				
	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	4,173	5,864	730	10,946
Additions	-	1,320	235	-	1,555
Disposals	-	(100)	(2,337)	-	(2,437)
Reclassifications	-	726	-	(726)	-
Balance at the end of the financial year	179	6,119	3,762	4	10,064
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(1,768)	(4,865)	-	(6,812)
Depreciation expense	-	(832)	(367)	-	(1,199)
Disposals	-	100	2,328	-	2,428
Balance at the end of the financial year	(179)	(2,500)	(2,904)	-	(5,583)
Carrying amount at 30 June 2018	-	3,619	858	4	4,481

Notes to the financial statements

for the financial year ended 30 June 2018

15. Property, plant and equipment (continued)

	The Group				
	2017				
	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	2,606	5,576	158	8,519
Additions	-	1,578	419	572	2,569
Disposals	-	(11)	(131)	-	(142)
Balance at the end of the financial year	179	4,173	5,864	730	10,946
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(1,347)	(4,667)	-	(6,193)
Depreciation expense	-	(430)	(320)	-	(750)
Disposals	-	9	122	-	131
Balance at the end of the financial year	(179)	(1,768)	(4,865)	-	(6,812)
Carrying amount at 30 June 2017	-	2,405	999	730	4,134

	The Bank				
	2018				
	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	4,173	5,864	730	10,946
Additions	-	1,320	235	-	1,555
Disposals	-	(100)	(2,337)	-	(2,437)
Balance at the end of the financial year	179	5,393	3,762	730	10,064
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(1,768)	(4,865)	-	(6,812)
Depreciation expense	-	(832)	(367)	-	(1,199)
Disposals	-	100	2,328	-	2,428
Balance at the end of the financial year	(179)	(2,500)	(2,904)	-	(5,583)
Carrying amount at 30 June 2018	-	2,893	858	730	4,481

15. Property, plant and equipment (continued)

	The Bank				
	2017				
	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	2,606	5,576	158	8,519
Additions	-	1,578	419	572	2,569
Disposals	-	(11)	(131)	-	(142)
Balance at the end of the financial year	179	4,173	5,864	730	10,946
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(1,347)	(4,667)	-	(6,193)
Depreciation expense	-	(430)	(320)	-	(750)
Disposals	-	9	122	-	131
Balance at the end of the financial year	(179)	(1,768)	(4,865)	-	(6,812)
Carrying amount at 30 June 2017	-	2,405	999	730	4,134

[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		
	2018		
	Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,551	(109)	1,442
Provision for impairment on loans not yet deductible	87	7	94
Prior year bad debts not yet deductible	212	(85)	127
Property, plant and equipment	339	131	470
Intangible assets	81	(8)	73
Accrued income not yet assessable	200	(53)	147
Accrued expenses not yet deductible	27	55	82
Prepayments	(12)	10	(2)
	2,485	(52)	2,433

16. Deferred tax assets (continued)

	The Group 2017 Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,455	96	1,551
Provision for impairment on loans not yet deductible	84	3	87
Prior year bad debts not yet deductible	154	58	212
Property plant and equipment	297	42	339
Intangible assets	83	(2)	81
Accrued income not yet assessable	253	(53)	200
Accrued expenses not yet deductible	(103)	130	27
Prepayments	(21)	9	(12)
	2,202	283	2,485

	The Bank 2018 Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,551	(109)	1,442
Provision for impairment on loans not yet deductible	87	7	94
Prior year bad debts not yet deductible	212	(85)	127
Property, plant and equipment	339	131	470
Intangible assets	81	(8)	73
Accrued income not yet assessable	200	(53)	147
Accrued expenses not yet deductible	27	55	82
Prepayments	(12)	10	(2)
	2,485	(52)	2,433

	The Bank 2017 Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,455	96	1,551
Provision for impairment on loans not yet deductible	84	3	87
Prior year bad debts not yet deductible	154	58	212
Property plant and equipment	297	42	339
Intangible assets	83	(2)	81
Accrued income not yet assessable	253	(53)	200
Accrued expenses not yet deductible	(103)	130	27
Prepayments	(21)	9	(12)
	2,202	283	2,485

17. Intangible assets

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

	The Group 2018		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	3,517	272	3,789
Additions	-	527	527
Reclassifications	128	(128)	-
Disposals	(178)	-	(178)
Balance at the end of the financial year	3,467	671	4,138
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(3,148)	-	(3,148)
Amortisation expense	(329)	-	(329)
Disposals	178	-	178
Balance at the end of the financial year	(3,299)	-	(3,299)
Carrying amount at 30 June 2018	168	671	839

	The Group 2017		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	3,200	154	3,354
Additions	-	452	452
Reclassifications	334	(334)	-
Disposals	(17)	-	(17)
Balance at the end of the financial year	3,517	272	3,789
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(2,815)	-	(2,815)
Amortisation expense	(350)	-	(350)
Disposals	17	-	17
Balance at the end of the financial year	(3,148)	-	(3,148)
Carrying amount at 30 June 2017	369	272	641

17. Intangible assets (continued)

	The Bank		
	2018		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	3,517	272	3,789
Additions	-	527	527
Reclassifications	128	(128)	-
Disposals	(178)	-	(178)
Balance at the end of the financial year	3,467	671	4,138
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(3,148)	-	(3,148)
Amortisation expense	(329)	-	(329)
Disposals	178	-	178
Balance at the end of the financial year	(3,299)	-	(3,299)
Carrying amount at 30 June 2018	168	671	839

	The Bank		
	2017		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	3,200	154	3,354
Additions	-	452	452
Reclassifications	334	(334)	-
Disposals	(17)	-	(17)
Balance at the end of the financial year	3,517	272	3,789
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(2,815)	-	(2,815)
Amortisation expense	(350)	-	(350)
Disposals	17	-	17
Balance at the end of the financial year	(3,148)	-	(3,148)
Carrying amount at 30 June 2017	369	272	641

[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		The Bank	
	2018 $000	2017 $000	2018 $000	2017 $000
Prepayments	606	682	606	682

19. Borrowings

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Securities sold under agreements to repurchase	5,294	20,282	5,294	20,282
Secured borrowings (refer to note 29)	140,997	102,222	140,997	102,222
	146,291	122,504	146,291	122,504
Deferred borrowing costs	(296)	(188)	(296)	(188)
Interest payable - borrowings	218	576	218	576
	146,213	122,892	146,213	122,892

a. Maturity analysis

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
At call	-	-	-	-
Not longer than three months	6,586	24,426	6,586	24,426
Longer than three months, not longer than one year	3,979	11,451	3,979	11,451
Longer than one year, not longer than five years	21,714	43,975	21,714	43,975
Longer than five years	114,012	42,652	114,012	42,652
	146,291	122,504	146,291	122,504

b. Reconciliation of liabilities arising from financing activities

	2017 $000	Cash flows $000	Non-cash movements $000	2018 $000
Securities sold under agreements to repurchase	20,282	(14,988)	-	5,294
Secured borrowings	102,222	38,775	-	140,997
Deferred borrowing costs	(188)	(152)	44	(296)
	122,316	23,635	44	145,995

20. Deposits

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Members' redeemable preference shares	698	740	698	740
Call deposits	718,954	667,429	718,954	667,429
Term deposits	1,046,435	965,987	1,046,435	965,987
Electronic certificates of deposit	178,015	98,015	178,015	98,015
	1,944,102	1,732,171	1,944,102	1,732,171
Deferred borrowing costs	(47)	(65)	(47)	(65)
Interest payable - deposits	9,841	9,036	9,841	9,036
	1,953,896	1,741,142	1,953,896	1,741,142

a. Maturity analysis

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
At call	719,652	668,169	719,652	668,169
Not longer than three months	546,445	423,892	546,445	423,892
Longer than three months, not longer than one year	601,747	555,264	601,747	555,264
Longer than one year, not longer than five years	76,258	84,846	76,258	84,846
	1,944,102	1,732,171	1,944,102	1,732,171

b. Concentration of deposits

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

21. Trade and other payables

	The Group		The Bank	
	2018 $000	2017 $000	2018 $000	2017 $000
Trade creditors	-	45	-	45
Other operating payables	395	287	395	287
Accrued expenses	1,902	1,408	1,902	1,408
Unearned commissions	683	126	683	126
Unamortised lease incentive	466	626	466	626
	3,446	2,492	3,446	2,492

22. Provisions

Provision for employee entitlements	4,807	5,172	4,807	5,172
Other provisions	23	26	23	26
	4,830	5,198	4,830	5,198

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 $1,812 thousand (2017: $2,972 thousand).

23. Share capital

Balance at the beginning of the financial year	943	907	943	907
Transfer on redemption of redeemable preference shares	42	36	42	36
Balance at the end of the financial year	985	943	985	943

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.

24. Reserves

a. General reserve

Balance at the beginning of the financial year	154,566	145,649	156,537	146,902
Transfer to the general reserve for credit losses	(586)	(457)	(586)	(457)
Transfer from retained earnings	9,752	9,374	10,667	10,092
Balance at the end of the financial year	163,732	154,566	166,618	156,537

24. Reserves (continued)

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	
	2018 $000	2017 $000	2018 $000	2017 $000
Balance at the beginning of the financial year	4,115	3,658	4,115	3,658
Transfer from the general reserve for credit losses	586	457	586	457
Balance at the end of the financial year	4,701	4,115	4,701	4,115

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.

25. Retained earnings

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Profit from continuing operations after income tax	9,794	9,410	10,709	10,128
Transfers to share capital upon redemption of redeemable preference shares	(42)	(36)	(42)	(36)
Transfers to general reserve	(9,752)	(9,374)	(10,667)	(10,092)
Retained earnings at the end of the financial year	-	-	-	-

26. 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	
	2018 $000	2017 $000	2018 $000	2017 $000
Profit for the year from continuing operations	9,794	9,410	10,709	10,128
Add non-cash items				
Impairment of loans and advances	237	383	237	383
Amortisation of deferred borrowing costs	44	44	44	44
Depreciation of property, plant and equipment	1,199	750	1,199	750
Amortisation of intangible assets	329	350	329	350
Decrease / (increase) in assets				
Interest receivable - Cash and cash equivalents	25	(30)	25	(30)
Interest receivable - Investments	(200)	325	(200)	325
Interest receivable - Loans and advances	-	(1)	-	(1)
Trade debtors	(236)	73	(236)	73
Prepaid expenses	76	(55)	76	(55)
Other operating receivables	(24)	111	(3,303)	(835)
Deferred tax assets	52	(283)	52	(283)
Investments	(13,004)	(36,986)	(13,004)	(36,986)
Overdraft balances	85	392	85	392
Credit card balances	526	463	526	463
Term loans	(237,687)	(211,500)	(237,687)	(211,500)
Increase / (decrease) in liabilities				
Interest payable - borrowings	(358)	(295)	(358)	(295)
Interest payable - deposits	805	2,210	805	2,210
Trade creditors	(45)	(416)	(45)	(416)
Accrued expenses	494	86	494	86
Unamortised lease incentive	(160)	(159)	(160)	(159)
Unearned commissions	557	(41)	557	(41)
Provision for employee benefits	(365)	322	(365)	322
Current tax liabilities	(157)	(204)	(157)	(204)
Other provisions	(3)	4	(3)	4
Members redeemable preference shares	(42)	(34)	(42)	(34)
Other operating payables	108	41	108	41
Call deposits	51,525	75,029	51,525	75,029
Term deposits	80,448	215,285	80,448	215,285
Electronic certificates of deposit	80,018	(26,535)	80,018	(26,535)
(Deduct) / add cash flows from investing activities included in operating profit				
Gain on disposal of equipment	(5)	(18)	(5)	(18)
Loss on disposal of equipment	-	10	-	10
Net cash (used in) / provided by operating activities	(25,964)	28,731	(28,328)	28,503

27. 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	
	2018 $000	2017 $000	2018 $000	2017 $000
Not longer than three months	871	876	871	876
Longer than three months, not longer than one year	2,587	2,466	2,587	2,466
Longer than one year, not longer than five years	2,366	5,444	2,366	5,444
Later than five years	-	-	-	-
	5,824	8,786	5,824	8,786

28. Financial commitments

Outstanding loan commitments

	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Loans approved but not advanced	37,948	30,344	37,948	30,344
Amounts available for redraw under term loans	163,069	149,825	163,069	149,825
Unused balance of revolving credit facilities	44,702	46,101	44,702	46,101
	245,719	226,270	245,719	226,270

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.

29. 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 (2017: Nil). The balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $15,069 thousand (2017: $19,017 thousand).

b. DBL Funding Trust No.1

The Bank has established DBL Funding Trust No. 1, which comprises three series; Repo Series No. 1, Series 2015-1PP and ANZ Warehouse Series. Repo Series No. 1 was established in September 2012 to facilitate 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 Moody's, are eligible for sale and repurchase transactions with the RBA and as such enhance the liquidity position of the Bank. During the financial year, $200.1 million of eligible mortgage receivables were transferred to the DBL Trust Repo Series No. 1 (2017: $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.

29. Securitisation arrangements (continued)

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.

ANZ Warehouse Series was established in March 2018. As at 30 June 2018, the Bank has transferred $64.0 million of eligible mortgages to the ANZ Warehouse Series, with Senior A class RMBS issued to a ANZ and subordinate B class RMBS issued to the Bank. The mortgage receivables transferred to these two 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 these two series have been recognised as secured borrowings of the Bank and are disclosed in note 19.

30. Remuneration of auditor

	The Group		The Bank	
	2018 $	2017 $	2018 $	2017 $
Deloitte Touche Tohmatsu				
Audit or review of the financial statements	89,500	88,000	89,500	80,300
Regulatory and compliance engagements	50,000	68,503	50,000	65,203
Tax consulting engagements	27,500	-	27,500	-
	167,000	156,503	167,000	145,503

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 Standards (APS) 310 and 910. The amounts disclosed in this note are inclusive of GST.

31. 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 ten executive managers. The aggregate compensation made to key management personnel of the Group during the financial year is as follows:

	2018 $	2017 $
Non Executive Directors' remuneration:		
Short-term employee benefits	625,600	631,702
Executive management remuneration:		
Short-term employee benefits	2,865,002	3,431,859
Other long-term benefits	327,061	163,131
Termination benefits	533,046	167,870
	3,725,109	3,762,860
Total key management personnel remuneration:		
Short-term employee benefits	3,490,602	4,063,561
Other long-term benefits	327,061	163,131
Termination benefits	533,046	167,870
	4,350,709	4,394,562

Transactions with key management personnel

Key management personnel may have undertaken transaction with the Group during the financial year. Any such transactions are conducted on terms no more favourable than would be offered to a third party transacting with the bank on an arms length basis.

32. Financial instruments

a. Categories of financial instruments	The Group 2018 $000	The Group 2017 $000	The Bank 2018 $000	The Bank 2017 $000
Financial assets				
Cash and cash equivalents	89,680	94,102	74,781	81,567
Held-to-maturity financial assets:				
Investments	228,760	215,556	228,760	215,556
Loans and receivables at amortised cost:				
Trade and other receivables	835	575	18,620	15,081
Loans and advances	1,948,553	1,711,714	1,948,553	1,711,714
Available-for-sale financial assets:				
Equity investments	1,639	1,639	1,639	1,639
	2,269,467	2,023,586	2,272,353	2,025,557
Financial liabilities				
At amortised cost:				
Borrowings	146,213	122,892	146,213	122,892
Deposits	1,953,896	1,741,142	1,953,896	1,741,142
Trade and other payables	3,446	2,492	3,446	2,492
	2,103,555	1,866,526	2,103,555	1,866,526

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 ALLC 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.

32. 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	
	2018 $000	2017 $000	2018 $000	2017 $000
Profit after tax	5,642	5,632	5,538	5,544
Equity	5,642	5,632	5,538	5,544

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 gross 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:

32. Financial instruments (continued)

	The Group 2018					
	Current and not impaired				Past due and / or impaired	Total
		Rated (Long term, Short term) [5]				
	Unrated $000	≥ AA-, A1 $000	≥ A-, A2 $000	≥ BBB-, A3 $000	$000	$000
Financial assets						
Cash and cash equivalents	-	89,680	-	-	-	89,680
Held-to-maturity financial assets:						
Investments	-	45,389	102,059	81,312	-	228,760
Loans and receivables at amortised cost:						
Trade and other receivables	835	-	-	-	-	835
Loans and advances	1,945,159	-	-	-	3,394	1,948,553
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,945,994	136,708	102,059	81,312	3,394	2,269,467

	The Group 2017					
	Current and not impaired				Past due and / or impaired	Total
		Rated (Long term, Short term) [5]				
	Unrated $000	≥ AA-, A1 $000	≥ A-, A2 $000	≥ BBB-, A3 $000	$000	$000
Financial assets						
Cash and cash equivalents	-	94,102	-	-	-	94,102
Held-to-maturity financial assets:						
Investments	-	54,454	84,831	76,271	-	215,556
Loans and receivables at amortised cost:						
Trade and other receivables	575	-	-	-	-	575
Loans and advances	1,709,733	-	-	-	1,981	1,711,714
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,710,308	150,195	84,831	76,271	1,981	2,023,586

32. Financial instruments (continued)

	The Bank 2018					
	Current and not impaired				Past due and / or impaired	Total
		Rated (Long term, Short term) [5]				
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	74,781	-	-	-	74,781
Held-to-maturity financial assets:						
Investments	-	45,389	102,059	81,312	-	228,760
Loans and receivables at amortised cost:						
Trade and other receivables	18,620	-	-	-	-	18,620
Loans and advances	1,945,159	-	-	-	3,394	1,948,553
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,963,779	121,809	102,059	81,312	3,394	2,272,353

	The Bank 2017					
	Current and not impaired				Past due and / or impaired	Total
		Rated (Long term, Short term) [5]				
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	81,567	-	-	-	81,567
Held-to-maturity financial assets:						
Investments	-	54,454	84,831	76,271	-	215,556
Loans and receivables at amortised cost:						
Trade and other receivables	15,081	-	-	-	-	15,081
Loans and advances	1,709,733	-	-	-	1,981	1,711,714
Available-for-sale financial assets:						
Equity investments	-	1,639	-	-	-	1,639
	1,724,814	137,660	84,831	76,271	1,981	2,025,557

[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.

32. 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 2018

	Past due and not impaired			Past due and / or impaired		
	30 - 59 days	60 - 89 days	≥ 90 days	< 90 days	≥ 90 days	Total
	$000	$000	$000	$000	$000	$000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	1,787	828	420	32	327	3,394
	1,787	828	420	32	327	3,394

The Group 2017

	Past due and not impaired			Past due and / or impaired		
	30 - 59 days	60 - 89 days	≥ 90 days	< 90 days	≥ 90 days	Total
	$000	$000	$000	$000	$000	$000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	631	948	-	57	345	1,981
	631	948	-	57	345	1,981

The Bank 2018

	Past due and not impaired			Past due and / or impaired		
	30 - 59 days	60 - 89 days	≥ 90 days	< 90 days	≥ 90 days	Total
	$000	$000	$000	$000	$000	$000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	1,787	828	420	32	327	3,394
	1,787	828	420	32	327	3,394

The Bank 2017

	Past due and not impaired			Past due and / or impaired		
	30 - 59 days	60 - 89 days	≥ 90 days	< 90 days	≥ 90 days	Total
	$000	$000	$000	$000	$000	$000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	631	948	-	57	345	1,981
	631	948	-	57	345	1,981

32. 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 2018 the Minimum Liquid Holdings ratio was 12.6% (2017: 13.0%).

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

	The Group		The Bank	
	2018 $000	2017 $000	2018 $000	2017 $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

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:

	2018 $000	2017 $000
Aaa(sf) rated RMBS	359,308	214,887

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.

32. 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					
	2018					
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	-	7,435	6,442	33,511	129,166	176,554
Deposits	719,652	553,159	617,117	80,482	-	1,970,410
Trade and other payables	-	3,446	-	-	-	3,446
	719,652	564,040	623,559	113,993	129,166	2,150,410

	The Group					
	2017					
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	-	27,199	13,524	49,347	49,440	139,510
Deposits	668,169	428,710	570,050	98,709	-	1,765,638
Trade and other payables	-	2,492	-	-	-	2,492
	668,169	458,401	583,574	148,056	49,440	1,907,640

	The Bank					
	2018					
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	-	7,435	6,442	33,511	129,166	176,554
Deposits	719,652	553,159	617,117	80,482	-	1,970,410
Trade and other payables	-	3,446	-	-	-	3,446
	719,652	564,040	623,559	113,993	129,166	2,150,410

	The Bank					
	2017					
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	-	27,199	13,524	49,347	49,440	139,510
Deposits	668,169	428,710	570,050	98,709	-	1,765,638
Trade and other payables	-	2,492	-	-	-	2,492
	668,169	458,401	583,574	148,056	49,440	1,907,640

32. 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	
	2018 $000	2017 $000	2018 $000	2017 $000
Financial assets				
Cash and cash equivalents	89,680	94,102	89,680	94,102
Held-to-maturity financial assets				
Investments	228,760	215,556	229,120	216,198
Loans and receivables at amortised cost:				
Trade and other receivables	835	575	835	575
Loans and advances	1,948,553	1,711,714	1,948,853	1,711,871
Available-for-sale financial assets:				
Equity investments [6]	1,639	1,639	1,639	1,639
	2,269,467	2,023,586	2,270,127	2,024,385
Financial liabilities				
At amortised cost:				
Borrowings	146,213	122,892	146,213	122,892
Deposits	1,953,896	1,741,142	1,955,638	1,742,863
Trade and other payables	3,446	2,492	3,446	2,492
	2,103,555	1,866,526	2,105,297	1,868,247

	The Bank			
	Carrying amount		Net fair value	
	2018 $000	2017 $000	2018 $000	2017 $000
Financial assets				
Cash and cash equivalents	74,781	81,567	74,781	81,567
Held-to-maturity financial assets				
Investments	228,760	215,556	229,120	216,198
Loans and receivables at amortised cost:				
Trade and other receivables	18,620	15,081	18,620	15,081
Loans and advances	1,948,553	1,711,714	1,948,853	1,711,871
Available-for-sale financial assets:				
Equity investments [6]	1,639	1,639	1,639	1,639
	2,272,353	2,025,557	2,273,013	2,026,356
Financial liabilities				
At amortised cost:				
Borrowings	146,213	122,892	146,213	122,892
Deposits	1,953,896	1,741,142	1,955,638	1,742,863
Trade and other payables	3,446	2,492	3,446	2,492
	2,103,555	1,866,526	2,105,297	1,868,247

[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.

32. Financial instruments (continued)

	The Group			
	Fair value hierarchy as at 30 June 18			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	89,680	-	-	89,680
Held-to-maturity financial assets				
Investments	-	229,120	-	229,120
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	835	835
Loans and advances	-	-	1,948,853	1,948,853
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	89,680	229,120	1,951,327	2,270,127
Financial liabilities				
At amortised cost:				
Borrowings	-	-	146,213	146,213
Deposits	-	-	1,955,638	1,955,638
Trade and other payables	-	-	3,446	3,446
	-	-	2,105,297	2,105,297

	The Group			
	Fair value hierarchy as at 30 June 17			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	94,102	-	-	94,102
Held-to-maturity financial assets				
Investments	-	216,198	-	216,198
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	575	575
Loans and advances	-	-	1,711,871	1,711,871
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	94,102	216,198	1,714,085	2,024,385
Financial liabilities				
At amortised cost:				
Borrowings	-	-	122,892	122,892
Deposits	-	-	1,742,863	1,742,863
Trade and other payables	-	-	2,492	2,492
	-	-	1,868,247	1,868,247

The Group applies discounted cash flow as the valuation technique for level 3 financial instruments, with the risk-adjusted discount rate as the key unobservable input.

32. Financial instruments (continued)

	The Bank			
	Fair value hierarchy as at 30 June 18			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	74,781	-	-	74,781
Held-to-maturity financial assets				
Investments	-	229,120	-	229,120
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	18,620	18,620
Loans and advances	-	-	1,948,853	1,948,853
Available-for-sale financial assets:				
Equity investments			1,639	1,639
	74,781	229,120	1,969,112	2,273,013
Financial liabilities				
At amortised cost:				
Borrowings	-	-	146,213	146,213
Deposits	-	-	1,955,638	1,955,638
Trade and other payables	-	-	3,446	3,446
	-	-	2,105,297	2,105,297

	The Bank			
	Fair value hierarchy as at 30 June 17			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	81,567	-	-	81,567
Held-to-maturity financial assets				
Investments	-	216,198	-	216,198
Loans and receivables at amortised cost:				
Trade and other receivables	-	-	15,081	15,081
Loans and advances	-	-	1,711,871	1,711,871
Available-for-sale financial assets:				
Equity investments	-	-	1,639	1,639
	81,567	216,198	1,728,591	2,026,356
Financial liabilities				
At amortised cost:				
Borrowings	-	-	122,892	122,892
Deposits	-	-	1,742,863	1,742,863
Trade and other payables	-	-	2,492	2,492
	-	-	1,868,247	1,868,247

33. 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	
	2018 %	2017 %	2018 %	2017 %
Common Equity Tier 1 ratio	14.4	15.0	14.4	15.0
Total Tier 1 Capital ratio	14.4	15.0	14.4	15.0
Tier 2 Capital ratio	0.4	0.4	0.4	0.4
Total Capital ratio	14.8	15.4	14.8	15.4

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.

34. 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.

35. Approval of financial statements

The financial statements were approved by the Board of directors and authorised for issue on 17 September 2018.

Directors' declaration

We, Frances Raymond and Bruce Murphy, 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 2018.

F Raymond
Director
17 September 2018

B Murphy
Director
17 September 2018

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Defence Bank Limited (the "Bank" or the "Company") and its controlled entity (collectively referred as the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income , the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

Deloitte.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Group 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Melbourne, 17 September 2018

Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
550 Bourke Street
Melbourne, VIC, 3000
Australia

Phone: +61 3 9671 7000
www.deloitte.com.au

The Board of Trustee
DBL Funding Trust No. 1
Level 5, 31 Queen Street
Melbourne VIC 3001

17 September 2018

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 DBL Funding Trust No. 1.

As lead audit partner for the audit of the financial statements of DBL Funding Trust No. 1 for the financial year ended 30 June 2018, 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

M Stretton

Mark Stretton
Partner
Chartered Accountants

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.

Defence Bank

We're here to help

For more information about any of our products and services, contact us today:

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

visit your local Defence Bank branch

defencebank.com.au

info@defencebank.com.au

Defence Bank Limited

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

AFR18 (10/18)