# 2018-2019
## Annual Financial Report.

# 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 2019. 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<br>*(Chair of the Board)* | 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, GAICD<br>*(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<br>*(Chair of the Audit Committee)* | Initially appointed to the Board on 23 November 2015. Most recently re-elected to the Board on 26 November 2018. |
| Ms Joan FITZPATRICK | BA (Hons), LLB, ANZIIF Fellow, CIP, FAICD<br>*(Chair of the Governance & Remuneration* Committee) | Initially appointed to the Board on 23 November 2015. Most recently re-elected to the Board on 26 November 2018. |
| 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, RAN 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. |
| Rear Admiral, RAN Ian Gordon MURRAY | BA, GradDipHRM, MDefStud, MA, MBA, GAICD, CAHRI, FCILT, psc | Initially elected to the Board on 21 November 2016. |

## 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, GAICD<br>*(Chief Financial Officer)* | Appointed 23 September 2011. |
| Manipos SIMOS | B. Bus. Accounting, Grad. Dip. Banking and Finance, GAICD<br>*(Chief Risk Officer)* | Appointed 16 September 2016. |



# Directors' report

## Directors' meetings

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

| Directors | Board | | Committees | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Audit | | Risk and Compliance | | Nominations | | Remuneration & Governance [2] | |
| | 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 | 3 | 3 | 6 | 6 | 1 | 1 | 7 | 6 |
| B A Murphy | 9 | 9 | 3 | 3 | 6 | 6 | 2 | 2 | 7 | 7 |
| A Myers | 9 | 9 | 3 | 3 | 6 | 6 | - | - | 5 | 5 |
| J Fitzpatrick | 9 | 8 | 1 | 1 | 4 | 4 | - | - | 6 | 6 |
| C D Madden | 9 | 9 | 2 | 2 | 2 | 2 | - | - | - | - |
| P J Mason [1] | 9 | 7 | 3 | 2 | - | - | - | - | - | - |
| I Murray | 9 | 7 | - | - | 6 | 4 | - | - | 2 | 1 |

[1] P J Mason was granted a leave of absence for two Board meetings due to active service requirements.

[2] On 26 November 2018, the Remuneration and Governance Committees were combined into one Remuneration and Governance Committee. The figures above represent the consolidated position had the combined Committee been in existence for the whole financial year.

## Principal activities

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

## Review of operations

a. Operating profit

During the financial year the Group earned a net profit of $10,042 thousand (2018: $9,794 thousand) after providing $4,304 thousand (2018: $4,167 thousand) for income tax expense.

b. Deposit and lending growth

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

| | 2019 $000 | 2018 $000 | Increase / (Decrease) $000 | Increase / (Decrease) % |
|---|---|---|---|---|
| Total assets | 2,500,301 | 2,277,826 | 222,475 | 9.8 |
| Total deposits | 2,092,438 | 1,953,896 | 138,542 | 7.1 |
| Total equity | 179,243 | 169,418 | 9,825 | 5.8 |
| Net loans and advances | 2,138,233 | 1,948,553 | 189,680 | 9.7 |
| Securitised housing loans (off balance sheet) | 12,656 | 15,069 | (2,413) | (16.0) |
| Total loans and advances (on and off balance sheet) | 2,150,889 | 1,963,622 | 187,267 | 9.5 |

c. Distribution network

The Bank continues to maintain the largest on-base branch network in the Australian Defence Force (ADF). With the introduction of tap and pay, New Payments Platform (NPP) and the removal of ATM fees from the big four banks, transactions on rediATMs have been in steady decline. In response to this, the Bank exited the rediATM network during the year, and existing ATMs in Defence Bank branches were rebranded as Defence Bank ATMs, remaining fee-free for members. Together with the combined fleet of the big four banks around Australia, Defence Bank members now have access to over 10,000 ATMs without being charged for transactions. The Bank assesses its branch network on an ongoing basis to take into account operational changes within the ADF, as well as the increasing preference of members to transact online. Following such a review, the branch at RAAF base Pearce was closed on 30th September 2019.

# Directors' report

## Review of operations (continued)

d. Product development
The Bank continues to improve products and services for members. This year saw the introduction of a number of ADF-relevant products, such as the Salute deposit account which rewards members who reach certain ADF service milestones or are deployed. Remote living expense allowance personal loans were also introduced, to support members posted to remote locations, and car loans were simplified, introducing a single interest rate to enhance member experience. This has contributed to a 33% increase in personal loan fundings for the year.

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. During the year, activity was increased, with Queensland Corrective Services engaged as a new partner, deepening the reach and output of the Foundation, allowing more dogs to be trained and delivered to eligible veterans.

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 major upgrades to its mobile banking App, which introduced significantly enhanced functionality, such as the ability to instantly cancel and reorder cards, round up expenditure to savings accounts and monitor spending. Our success in this space was recognised, with the Bank announced as a winner of the Mozo Experts Choice Awards 2019, in the category of Excellent Banking App. In addition, the Bank introduced Garmin Pay and Fitbit Pay to the digital wallet suite.

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 71% which compares favourably with peer financial services organisations. In March 2019, the Bank was honoured to receive the award for Excellence in Supporting Spouse Employment at the Prime Minister's Veterans' Employment Awards.

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.

j. Member Experience
During the financial year the Bank continued to measure Net Promoter Score and Member Effort Score, which provide us with direct feedback from members. In response to this feedback, specific changes have been made to internet banking and account opening procedures, including a simplified on-boarding process for new members. The account-keeping fee has been removed from Everyday Access accounts, effective 1 July 2019, and a rationalisation of deposit accounts has been undertaken to simplify our offering to members. In addition, the loan approval process has been simplified, leading to quicker decisions on loan applications.

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

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



# Directors' report

## Subsequent events
Since the end of the financial year, the directors have not become aware of any matters or circumstances that may significantly affect the operations, results of those operations, or the state of affairs, of the 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 2018, 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 59.

## 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
14 October 2019

A Myers
Director
14 October 2019

# Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2019

| | Notes | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|---|
| Income | | | | | |
| Interest income | 5 | 88,144 | 81,393 | 87,926 | 81,194 |
| Interest expense | 5 | (42,281) | (37,121) | (42,281) | (37,121) |
| Net interest income | | 45,863 | 44,272 | 45,645 | 44,073 |
| Other income | 6 | 8,216 | 8,201 | 9,331 | 9,186 |
| | | 54,079 | 52,473 | 54,976 | 53,259 |
| Expenses | | | | | |
| Personnel expenses | 6 | 20,619 | 20,173 | 20,619 | 20,173 |
| Depreciation and amortisation expense | 6 | 1,742 | 1,528 | 1,742 | 1,528 |
| Increase in provision on loans and advances | 14 | 214 | 237 | 214 | 237 |
| Other expenses | 6 | 17,158 | 16,574 | 17,007 | 16,445 |
| | | 39,733 | 38,512 | 39,582 | 38,383 |
| Profit before income tax | | 14,346 | 13,961 | 15,394 | 14,876 |
| Income tax expense | 7 | 4,304 | 4,167 | 4,304 | 4,167 |
| Profit for the year from continuing operations | | 10,042 | 9,794 | 11,090 | 10,709 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income | | 10,042 | 9,794 | 11,090 | 10,709 |

The accompanying notes form part of these financial statements.



# Consolidated statement of financial position

as at 30 June 2019

| | Notes | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | 9 | 81,539 | 89,680 | 67,549 | 74,781 |
| Investments | 10 | 270,764 | 228,760 | 270,764 | 228,760 |
| Equity investments | 11 | 1,639 | 1,639 | 1,639 | 1,639 |
| Trade and other receivables | 13 | 742 | 835 | 18,666 | 18,620 |
| Loans and advances | 14 | 2,138,233 | 1,948,553 | 2,138,233 | 1,948,553 |
| Current tax assets | | 314 | - | 314 | - |
| Property, plant and equipment | 15 | 3,197 | 4,481 | 3,197 | 4,481 |
| Deferred tax assets | 16 | 2,252 | 2,433 | 2,252 | 2,433 |
| Intangible assets | 17 | 854 | 839 | 854 | 839 |
| Other assets | 18 | 767 | 606 | 767 | 606 |
| | | 2,500,301 | 2,277,826 | 2,504,235 | 2,280,712 |
| Liabilities | | | | | |
| Borrowings | 19 | 221,945 | 146,213 | 221,945 | 146,213 |
| Deposits | 20 | 2,092,438 | 1,953,896 | 2,092,438 | 1,953,896 |
| Trade and other payables | 21 | 2,874 | 3,446 | 2,874 | 3,446 |
| Current tax liabilities | | - | 23 | - | 23 |
| Provisions | 22 | 3,801 | 4,830 | 3,801 | 4,830 |
| | | 2,321,058 | 2,108,408 | 2,321,058 | 2,108,408 |
| Net assets | | 179,243 | 169,418 | 183,177 | 172,304 |
| Equity | | | | | |
| Share capital | 23 | 1,012 | 985 | 1,012 | 985 |
| Reserves | 24 | 178,231 | 168,433 | 182,165 | 171,319 |
| Retained earnings | 25 | - | - | - | - |
| | | 179,243 | 169,418 | 183,177 | 172,304 |

The accompanying notes form part of these financial statements.

# Consolidated statement of changes in equity
for the financial year ended 30 June 2019

| | The Group 2019 | | | | |
|---|---|---|---|---|---|
| | Share capital $000 | General reserve for credit losses $000 | General reserve $000 | Retained earnings $000 | Total equity $000 |
| Balance at 1 July 2018 | 985 | 4,701 | 163,732 | - | 169,418 |
| AASB transitional adjustment to retained earnings, net of tax | - | - | (217) | - | (217) |
| Transfer on redemption of redeemable member shares | 27 | - | - | (27) | - |
| Transfer to general reserve for credit losses | - | 810 | (810) | - | - |
| Profit for the financial year | - | - | - | 10,042 | 10,042 |
| Transfer to general reserve | - | - | 10,015 | (10,015) | - |
| Balance at 30 June 2019 | 1,012 | 5,511 | 172,720 | - | 179,243 |

| | 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 |



# Consolidated statement of changes in equity
for the financial year ended 30 June 2019

| | The Bank 2019 | | | | |
|---|---|---|---|---|---|
| | Share capital $000 | General reserve for credit losses $000 | General reserve $000 | Retained earnings $000 | Total equity $000 |
| Balance at 1 July 2018 | 985 | 4,701 | 166,618 | - | 172,304 |
| AASB transitional adjustment to retained earnings, net of tax | - | - | (217) | - | (217) |
| Transfer on redemption of redeemable member shares | 27 | - | - | (27) | - |
| Transfer to general reserve for credit losses | - | 810 | (810) | - | - |
| Profit for the financial year | - | - | - | 11,090 | 11,090 |
| Transfer to general reserve | - | - | 11,063 | (11,063) | - |
| Balance at 30 June 2019 | 1,012 | 5,511 | 176,654 | - | 183,177 |

| | 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 accompanying notes form part of these financial statements.

# Consolidated statement of cash flows

for the financial year ended 30 June 2019

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | Notes | $000 | $000 | $000 | $000 |
| Cash flows from operating activities | | | | | |
| Interest received | | 88,071 | 81,218 | 87,853 | 81,019 |
| Fees and commissions received | | 8,213 | 8,592 | 8,213 | 8,592 |
| Other income received | | 299 | 263 | 1,414 | 1,248 |
| Dividends received | | 68 | 137 | 68 | 137 |
| Recoveries on loans previously written off | | 94 | 113 | 94 | 113 |
| Goods and services tax refunded | | 542 | 508 | 542 | 508 |
| Interest paid | | (40,318) | (36,630) | (40,318) | (36,630) |
| Payments to suppliers and employees | | (40,259) | (37,846) | (40,108) | (37,717) |
| Tax (paid) / collected on retirement savings accounts | | (144) | 70 | (144) | 70 |
| Income tax paid | | (4,223) | (4,342) | (4,223) | (4,342) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 12,343 | 12,083 | 13,391 | 12,998 |
| Net increase in investments | | (41,887) | (13,004) | (41,887) | (13,004) |
| Net increase in loans and advances | | (190,213) | (237,076) | (190,213) | (237,076) |
| Net increase in other operating receivables | | (86) | (24) | (225) | (3,303) |
| Net increase in deposits | | 136,669 | 211,949 | 136,669 | 211,949 |
| Net (decrease)/ increase in other operating payables | | (126) | 108 | (126) | 108 |
| Net cash used in operating activities | 26 | (83,300) | (25,964) | (82,391) | (28,328) |
| Cash flows from investing activities | | | | | |
| Proceeds on disposal of property, plant and equipment | | 86 | 14 | 86 | 14 |
| Purchases of property, plant and equipment | 15 | (83) | (1,555) | (83) | (1,555) |
| Purchases of intangible assets | 17 | (451) | (527) | (451) | (527) |
| Net cash used in investing activities | | (448) | (2,068) | (448) | (2,068) |
| Cash flows from financing activities | | | | | |
| Net increase in borrowings | 19b | 75,642 | 23,635 | 75,642 | 23,635 |
| Net decrease in cash and cash equivalents | | (8,106) | (4,397) | (7,197) | (6,761) |
| Cash and cash equivalents at the beginning of the financial year | | 89,603 | 94,000 | 74,704 | 81,465 |
| Cash and cash equivalents at the end of the financial year | 9 | 81,497 | 89,603 | 67,507 | 74,704 |

The accompanying notes form part of these financial statements.



# Notes to the financial statements

for the financial year ended 30 June 2019

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.
ECL means Expected Credit Losses.
FVTOCI means Fair value through other comprehensive income.
FVTPL means Fair value through profit or loss.
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 Interpretations 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 January 2018, and therefore relevant for the current year end.

#### AASB 9 Financial Instruments and related amending standards

In the current year, the Group has applied AASB 9 Financial Instruments (as revised in June 2014). The Group has applied the transitional provisions of AASB 9 and has not restated comparatives.

AASB 9 introduces new requirements for the classification, measurement and derecognition of financial assets and liabilities. 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.

*Classification and measurement of financial assets*
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 measured 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.

*Impairment of financial assets*
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)

AASB 9's general approach to recognising impairment is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument and, although the credit loss remains unchanged over the life of the asset, generally results in earlier recognition of credit impairments, compared with AASB 9.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument, taking account of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), and includes a forward-looking macroeconomic assessment.

- Stage 1 covers financial instruments for which there has not been a significant increase in credit risk (SICR) since initial recognition;
- Stage 2 covers financial instruments for which there has been a SICR but where there is no objective evidence of impairment; and,
- Stage 3 covers financial assets that have objective evidence of impairment at the reporting date, assessed on an individual basis with reference to the specific circumstances of that financial asset.

12-month expected credit losses are recognised in stage 1, while lifetime expected credit losses are recognised in stages 2 and 3. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. AASB 9 contains a rebuttable presumption that the credit risk on a financial instrument has increased significantly when contractual payments are more than 30 days past due. The ECL for credit-impaired financial assets is generally measured as the difference between the contractual and expected cashflows.

*Classification and measurement of financial liabilities*
The application of AASB 9 has had no impact on the classification and measurement of the Group's financial liabilities.

The directors of the Group reviewed and assessed the Group's existing financial assets and liabilities as at 1 July 2018, based on the facts and circumstances that existed at that date, and concluded that the initial application of AASB 9 had the following impact on the Group's financial assets regarding their classification and measurement.

| | Original classification under AASB 139 | New classification under AASB 9 | Original carrying amount under AASB 139 $'000 | New carrying amount under AASB 9 $'000 | AASB 9 Transitional adjustment as at 1 July 2018 $'000 |
|---|---|---|---|---|---|
| *Financial assets* | | | | | |
| Cash and cash equivalents | Amortised cost | Amortised cost | 89,680 | 89,680 | - |
| Investments | Amortised cost | Amortised cost | 228,760 | 228,760 | - |
| Equity investments | FVTPL | FVTOCI | 1,639 | 1,639 | - |
| Trade and other receivables | Loans and receivables | Amortised cost | 835 | 835 | - |
| Loans and advances | Loans and receivables | Amortised cost | 1,948,553 | 1,948,243 | 310 |
| *Financial liabilities* | | | | | |
| Borrowings | Amortised cost | Amortised cost | 146,213 | 146,213 | - |
| Deposits | Amortised cost | Amortised cost | 1,953,896 | 1,953,896 | - |
| Trade and other payables | Amortised cost | Amortised cost | 3,446 | 3,446 | - |
| Tax impact | | | | | (93) |
| AASB 9 transitional adjustment to retained earnings, net of tax | | | | | 217 |

The AASB 9 transitional adjustment has resulted in a $217 thousand after-tax reduction to opening retained earnings, at 1 July 2018. Refer to Notes 14e, 16 and 24 for further information. The application of AASB 9 has had no impact on the consolidated cash flows of the Group.





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

### AASB 15 Revenue from Contracts with Customers and related amending Standards

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended in April 2016), effective from 1 July 2018.

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, and supersedes previous revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts and the related Interpretations.

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

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, subject to AASB 15, 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 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, and there is no impact following the adoption of AASB 15.

## 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:*

| Standard / Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 16 "*Leases*" | 1 January 2019 | 30 June 2020 |
| Interpretation 23 – "*Uncertainty over Income Tax Treatments*" | 1 January 2019 | 30 June 2020 |
| AASB 17 - "*Insurance Contracts*" | 1 January 2021 | 30 June 2022 |
| Amendments to AASB 9, *Prepayment Features with Negative Compensation* | 1 January 2019 | 30 June 2020 |
| Amendments to AASB 128 - "*Investments in Associates and Joint Ventures*" | 1 January 2019 | 30 June 2020 |
| Annual improvements to IFRS Standards 2015-2017 Cycle - Amendments to AASB 3 *Business Combinations*, AASB 11 *Joint Arrangements*, AASB 112 *Income Taxes* and AASB 123 *Borrowing Costs* | 1 January 2019 | 30 June 2020 |
| Amendments to AASB 119 - "Employee Benefits" | 1 January 2019 | 30 June 2020 |





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

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

*AASB 16 Leases*

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. The date of initial application of AASB 16 for the Group will be 1 July 2019.

The Group has chosen the cumulative catch-up approach for the adoption of AASB 16. Under this method, prior year comparatives will not be restated, and we will recognise the cumulative effect of applying AASB 16 as an adjustment to the opening balance of retained earnings at the transition date of 1 July 2019.

*Impact of the new definition of a lease*

The Group will make use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and Interpretation 4 will continue to apply to those leases entered or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset, and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Group has carried out an implementation project. The project has shown that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

*Impact on lessee accounting*

<u>Operating leases</u>
AASB 16 will change how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

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

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

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis, as permitted by AASB 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of $2,891 thousand.

A preliminary assessment indicates that $2,835 thousand of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of $1,987 thousand and a corresponding lease liability of $2,765 thousand in respect of all these leases. The impact on profit or loss is to decrease other expenses by $1,376 thousand, to increase depreciation by $987 thousand and to increase interest expense by $49 thousand. Lease liability incentives of $306 thousand previously recognised in respect of the operating leases will be derecognised and the amount factored into the measurement of the right-to-use assets and lease liabilities.

Under AASB 117, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under AASB 16 would be to reduce the cash generated by operating activities by $1,253 thousand and to increase net cash used in financing activities by the same amount.

Finance leases
The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the Group has assessed that the impact of this change will not have an impact on the amounts recognised in the Group's consolidated financial statements.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117.





## 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 14 October 2019.

### 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.

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 of the controlled entity is disclosed within note 12 to these financial statements. The 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.

## 3. Significant accounting policies (continued)

### d. Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer or member. The Group recognises revenue when it transfers control of a product or service to a customer or member.

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

Fee and commission income is recognised on an accrual basis once a right to receive consideration has been attained or when service to the customer has been rendered. However, commission income for Loan Repayment Insurance (LRI) is deferred and recognised on a straight-line basis over a 12 month period reflecting the average life of a LRI policy. Unearned commissions liability is detailed in note 21 to the financial statements.

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

### e. Leasing

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

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

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

### f. Employee benefits

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

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

### 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.







### g. Taxation (continued)

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

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

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

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

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

### h. Property, plant and equipment

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

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

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

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

## 3. Significant accounting policies (continued)

i. Intangible assets

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

| | |
|---|---|
| Computer software | 2.5 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.

k. Provisions

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

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

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

l. Financial instruments

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





3. Significant accounting policies (continued)

l. Financial instruments (continued)

Financial assets

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.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss (FVTPL)

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset, 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 financial asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis.

*Investments at amortised cost*

Investments where the Group's objective is to hold the financial assets to collect the contractual cash flows, which are solely payments of principal and interest, are classified as 'Amortised cost'. Amortised cost 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.

*Equity investments*

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

*Impairment of financial assets*

Impairment of financial assets is measured using an expected credit loss model. The expected credit loss model requires the Group 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.

The recognition of impairment is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument, taking account of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), and includes a forward-looking macroeconomic assessment.

## 3. Significant accounting policies (continued)

l. Financial instruments (continued)

- Stage 1 covers financial instruments for which there has not been a significant increase in credit risk (SICR) since initial recognition;
- Stage 2 covers financial instruments for which there has been a SICR but where there is no objective evidence of impairment; and,
- Stage 3 covers financial assets that have objective evidence of impairment at the reporting date, assessed on an individual basis with reference to the specific circumstances of that financial asset.

12-month expected credit losses are recognised in stage 1, while lifetime expected credit losses are recognised in stages 2 and 3. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. AASB 9 contains a rebuttable presumption that the credit risk on a financial instrument has increased significantly when contractual payments are more than 30 days past due. The ECL for credit-impaired financial assets is generally measured as the difference between the contractual and expected cashflows.

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.

*Derecognition of financial assets*
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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:
- 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
- for receivables and payables which are recognised inclusive of GST.





3. Significant accounting policies (continued)

m. Goods & Service Tax (GST) (continued)

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

n. Securitisation

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

o. Reclassifications

Certain amounts in the 2019 financials have been reclassified to reflect the changes in AASB 9 Financial Instruments. Financial assets previously classified as 'Held-to-Maturity' investments are now classified as 'Amortised Cost', and those classified as FVTPL are now classified as FVTOCI.

## 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.

Financial assets at amortised cost
The directors have reviewed the Group's financial assets at amortised cost in light of its capital maintenance and liquidity requirements and have confirmed the Group's objective to hold these assets with the intention of collecting the contractual cash flows. The carrying amount of financial assets at amortised cost is $270,764 thousand (2018: $228,760 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 the expected credit losses (ECL).

## 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 2019 | | |
|---|---|---|---|
| | Average balance $000 | Interest amount $000 | Average interest rate % |
| Financial assets | | | |
| Cash and cash equivalents | 74,796 | 1,065 | 1.42 |
| Investments | 251,584 | 6,641 | 2.64 |
| Loans and advances | 2,049,943 | 80,438 | 3.92 |
| | | 88,144 | 3.71 |
| Financial liabilities | | | |
| Borrowings | 193,197 | 5,937 | 3.07 |
| Deposits | 2,012,248 | 36,344 | 1.81 |
| | | 42,281 | 1.92 |
| Net interest income | | 45,863 | |

| | 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 Bank 2019 | | |
|---|---|---|---|
| | Average balance $000 | Interest amount $000 | Average interest rate % |
| Financial assets | | | |
| Cash and cash equivalents | 58,059 | 847 | 1.46 |
| Investments | 251,584 | 6,641 | 2.64 |
| Loans and advances | 2,049,943 | 80,438 | 3.92 |
| | | 87,926 | 3.73 |
| Financial liabilities | | | |
| Borrowings | 193,197 | 5,937 | 3.07 |
| Deposits | 2,012,248 | 36,344 | 1.81 |
| | | 42,281 | 1.92 |
| Net interest income | | 45,645 | |





## 5. Interest income and interest expense (continued)

| | 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 | |

## 6. Other income and expenses

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Other income | | | | |
| Dividends | 68 | 137 | 68 | 137 |
| Fee income arising from financial assets | 339 | 399 | 339 | 399 |
| Fee income arising from financial liabilities | 151 | 178 | 151 | 178 |
| Other transaction fee income | 1,103 | 1,220 | 1,103 | 1,220 |
| Other service fee income | 2,203 | 2,014 | 2,203 | 2,014 |
| Other fee income | 20 | 24 | 20 | 24 |
| Insurance commissions | 1,925 | 1,939 | 1,925 | 1,939 |
| Other commissions | 1,980 | 1,909 | 1,980 | 1,909 |
| Gain on disposal of property, plant and equipment | 34 | 5 | 34 | 5 |
| Bad debts recovered | 94 | 113 | 94 | 113 |
| Other income | 299 | 263 | 1,414 | 1,248 |
| | 8,216 | 8,201 | 9,331 | 9,186 |
| Personnel expenses | | | | |
| Employee benefits | 18,436 | 17,404 | 18,436 | 17,404 |
| Provision for employee benefits | (225) | (362) | (225) | (362) |
| Termination benefits | 38 | 624 | 38 | 624 |
| Other personnel expenses | 2,370 | 2,507 | 2,370 | 2,507 |
| | 20,619 | 20,173 | 20,619 | 20,173 |
| Depreciation and amortisation expense | | | | |
| Plant and equipment | 304 | 367 | 304 | 367 |
| Buildings and leasehold improvements | 1,002 | 832 | 1,002 | 832 |
| Computer software | 436 | 329 | 436 | 329 |
| | 1,742 | 1,528 | 1,742 | 1,528 |
| Other expenses | | | | |
| Loss on disposal of property, plant and equipment | 9 | - | 9 | - |
| Rental - operating leases | 1,410 | 1,352 | 1,410 | 1,352 |
| Occupancy expenses | 280 | 305 | 280 | 305 |
| Information technology expenses | 4,300 | 4,215 | 4,300 | 4,215 |
| External financial transaction processing fees and charges | 3,380 | 3,363 | 3,380 | 3,363 |
| Telephone expenses | 355 | 320 | 355 | 320 |
| Administration expenses | 2,656 | 2,603 | 2,656 | 2,603 |
| Marketing and promotion | 1,760 | 1,866 | 1,760 | 1,866 |
| Other expenses from ordinary activities | 3,008 | 2,550 | 2,857 | 2,421 |
| | 17,158 | 16,574 | 17,007 | 16,445 |





## 7. Income tax expense

Income tax expenses recognised in profit or loss:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Current tax expense: | | | | |
| - in respect of current year | 4,036 | 4,110 | 4,036 | 4,110 |
| - in respect of prior year | - | 6 | - | 6 |
| Deferred tax income relating to the origination and reversal of temporary differences | 274 | 52 | 274 | 52 |
| Adjustments recognised in the current year in relation to current tax of prior years | (6) | (1) | (6) | (1) |
| Income tax expense | 4,304 | 4,167 | 4,304 | 4,167 |

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

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Profit before income tax | 14,346 | 13,961 | 15,394 | 14,876 |
| Income tax calculated at 30% (2018: 30%) | 4,304 | 4,188 | 4,618 | 4,463 |
| Effect of expenses that are not deductible in determining taxable profit | 26 | 21 | 1,787 | 931 |
| Effect of income that is not assessable in determining taxable profit | - | - | (8,171) | (6,526) |
| Effect of income that is assessable in determining taxable profit | 9 | 18 | 6,105 | 5,359 |
| Effect of imputation credits | (29) | (59) | (29) | (59) |
| Adjustments recognised in the current year in relation to current tax of prior years | (6) | (1) | (6) | (1) |
| Income tax expense | 4,304 | 4,167 | 4,304 | 4,167 |

## 8. Franking credits balance

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

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Franking account balance as at the end of the financial year at 30% (2018: 30%) | 89,982 | 83,872 | 89,982 | 83,872 |
| Franking credits that will decline from the refund of income tax receivable as at the end of the financial year | (2,099) | (1,907) | (2,099) | (1,907) |
| | 87,883 | 81,965 | 87,883 | 81,965 |

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 | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Cash on hand | 2,591 | 2,247 | 2,591 | 2,247 |
| Call deposits with ADIs | 64,916 | 72,457 | 64,916 | 72,457 |
| Restricted cash on deposit with ADIs | 13,990 | 14,899 | - | - |
| | 81,497 | 89,603 | 67,507 | 74,704 |
| Interest receivable - cash and cash equivalents | 42 | 77 | 42 | 77 |
| | 81,539 | 89,680 | 67,549 | 74,781 |

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 | | The Bank | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Term deposits with ADIs | 26,950 | 19,950 | 26,950 | 19,950 |
| Negotiable certificates of deposit | 107,113 | 104,215 | 107,113 | 104,215 |
| Floating rate notes | 135,626 | 103,637 | 135,626 | 103,637 |
| | 269,689 | 227,802 | 269,689 | 227,802 |
| Interest receivable - investments | 1,075 | 958 | 1,075 | 958 |
| | 270,764 | 228,760 | 270,764 | 228,760 |
| a. Maturity analysis | | | | |
| Not longer than three months | 103,359 | 99,324 | 103,359 | 99,324 |
| Longer than three months, not longer than one year | 66,827 | 34,842 | 66,827 | 34,842 |
| Longer than one year, not longer than five years | 99,503 | 93,636 | 99,503 | 93,636 |
| | 269,689 | 227,802 | 269,689 | 227,802 |

## 11. Equity investments

| | | | | |
|---|---|---|---|---|
| Unlisted shares in Cuscal - at FVTOCI | 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 | 2019 % owned | 2018 % owned |
|---|---|---|---|
| DBL Funding Trust No. 1 | Australia | 100% | 100% |

| Transactions with controlled entities<br>The following transactions occurred with controlled entities: | 2019 $000 | 2018 $000 |
|---|---|---|
| Receipts | | |
| Servicer fee | 931 | 821 |
| Trust manager fee | 62 | 55 |
| Trust administrator fee | 124 | 110 |
| Payments | | |
| Payment of offset interest amounts under terms of trust deed | 6,049 | 2,629 |

## 13. Trade and other receivables

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Other operating receivables [1] | 255 | 169 | 18,179 | 17,954 |
| Trade debtors [2] | 487 | 666 | 487 | 666 |
| | 742 | 835 | 18,666 | 18,620 |

[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 2019 there are no past due or impaired trade and other receivables (2018: Nil).

## 14. Loans and advances

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Overdrafts | 4,884 | 5,204 | 4,884 | 5,204 |
| Credit cards | 11,401 | 12,121 | 11,401 | 12,121 |
| Term loans | 2,118,613 | 1,928,017 | 2,118,613 | 1,928,017 |
| Gross loans and advances | 2,134,898 | 1,945,342 | 2,134,898 | 1,945,342 |
| Provision for impairment | (614) | (311) | (614) | (311) |
| Deferred loan fee income | (943) | (1,011) | (943) | (1,011) |
| Deferred loan origination expenses | 4,892 | 4,524 | 4,892 | 4,524 |
| Interest receivable - Loans and advances | - | 9 | - | 9 |
| Net loans and advances | 2,138,233 | 1,948,553 | 2,138,233 | 1,948,553 |

## 14. Loans and advances (continued)

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| **a. Contractual maturity analysis** | | | | |
| Overdrafts | 4,884 | 5,204 | 4,884 | 5,204 |
| Not longer than three months | 21,741 | 20,991 | 21,741 | 20,991 |
| Longer than three months, not longer than one year | 64,824 | 61,489 | 64,824 | 61,489 |
| Longer than one year, not longer than five years | 324,433 | 307,141 | 324,433 | 307,141 |
| Longer than five years | 1,719,016 | 1,550,517 | 1,719,016 | 1,550,517 |
| | 2,134,898 | 1,945,342 | 2,134,898 | 1,945,342 |
| **b. Loans by security type** | | | | |
| Mortgage over property | | | | |
| - Loan to value ratio up to 80% | 1,455,178 | 1,278,073 | 1,455,178 | 1,278,073 |
| - Loan to value ratio over 80% with mortgage insurance | 490,796 | 480,090 | 490,796 | 480,090 |
| - Loan to value ratio over 80% without mortgage insurance | 51,752 | 57,324 | 51,752 | 57,324 |
| | 1,997,726 | 1,815,487 | 1,997,726 | 1,815,487 |
| Mortgage over other assets | 83,223 | 72,399 | 83,223 | 72,399 |
| Unsecured | 53,949 | 57,456 | 53,949 | 57,456 |
| | 2,134,898 | 1,945,342 | 2,134,898 | 1,945,342 |
| **c. Loans by purpose** | | | | |
| Residential owner-occupied property | 1,772,551 | 1,616,146 | 1,772,551 | 1,616,146 |
| Residential investment property | 224,282 | 198,975 | 224,282 | 198,975 |
| Commercial property | 763 | 226 | 763 | 226 |
| Other | 137,302 | 129,995 | 137,302 | 129,995 |
| | 2,134,898 | 1,945,342 | 2,134,898 | 1,945,342 |
| **d. Loans by state** | | | | |
| New South Wales | 461,292 | 413,103 | 461,292 | 413,103 |
| Victoria | 265,836 | 247,020 | 265,836 | 247,020 |
| Queensland | 708,504 | 656,833 | 708,504 | 656,833 |
| South Australia | 165,933 | 140,997 | 165,933 | 140,997 |
| Western Australia | 167,326 | 156,362 | 167,326 | 156,362 |
| Tasmania | 17,093 | 14,553 | 17,093 | 14,553 |
| Northern Territory | 67,139 | 65,545 | 67,139 | 65,545 |
| Australian Capital Territory | 281,775 | 250,929 | 281,775 | 250,929 |
| | 2,134,898 | 1,945,342 | 2,134,898 | 1,945,342 |
| **e. Loss allowance** | | | | |
| Balance at the beginning of the financial year | 311 | 289 | 311 | 289 |
| Adjustment to impairment - AASB 9 | 310 | - | 310 | - |
| Increase in provision on loans and advances | 214 | 237 | 214 | 237 |
| Bad debts written off | (221) | (215) | (221) | (215) |
| Balance at the end of the financial year | 614 | 311 | 614 | 311 |





## 14. Loans and advances (continued)

e. Loss allowance (continued)

| | Stage 1 $'000 | Stage 2 $'000 | Stage 3 $'000 | Individually assessed $'000 | Collectively assessed $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at the beginning of the financial year | - | - | - | 19 | 292 | 311 |
| AASB 9 transitional adjustment | 240 | 291 | 90 | (19) | (292) | 310 |
| Loss allowance at 1 July 2018 | 240 | 291 | 90 | - | - | 621 |
| Changes in the loss allowance | | | | | | |
| - Transfer to stage 1 | 29 | (29) | - | - | - | - |
| - Transfer to stage 2 | (2) | 2 | - | - | - | - |
| - Transfer to stage 3 | (1) | - | 1 | - | - | - |
| - Loans written off | (1) | (81) | (13) | - | - | (95) |
| - Loans paid off | (52) | (84) | (15) | - | - | (151) |
| - Net change in credit risk | (49) | 143 | 30 | - | - | 124 |
| New loans and advances originated | 105 | 7 | 3 | - | - | 115 |
| Loss allowance at 30 June 2019 | 269 | 249 | 96 | - | - | 614 |

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 $8 thousand (2018: $42 thousand) and were used to offset associated credit losses. The value of assets obtained through enforcement of security at reporting date was $nil (2018: $nil).

## 15. Property, plant and equipment

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

| | The Group 2019 | | | | |
|---|---|---|---|---|---|
| | 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 | 6,119 | 3,762 | 4 | 10,064 |
| Additions | - | 34 | 49 | - | 83 |
| Disposals | - | - | (335) | - | (335) |
| Reclassifications | - | - | 4 | (4) | - |
| Balance at the end of the financial year | 179 | 6,153 | 3,480 | - | 9,812 |
| Accumulated depreciation and impairment | | | | | |
| Balance at the beginning of the financial year | (179) | (2,500) | (2,904) | - | (5,583) |
| Depreciation expense | - | (1,002) | (304) | - | (1,306) |
| Disposals | - | - | 274 | - | 274 |
| Balance at the end of the financial year | (179) | (3,502) | (2,934) | - | (6,615) |
| Carrying amount at 30 June 2019 | - | 2,651 | 546 | - | 3,197 |

| | 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 |





## 15. Property, plant and equipment (continued)

| | The Bank 2019 | | | | |
|---|---|---|---|---|---|
| | 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 | 6,119 | 3,762 | 4 | 10,064 |
| Additions | - | 34 | 49 | - | 83 |
| Disposals | - | - | (335) | - | (335) |
| Reclassifications | - | - | 4 | (4) | - |
| Balance at the end of the financial year | 179 | 6,153 | 3,480 | - | 9,812 |
| Accumulated depreciation and impairment | | | | | |
| Balance at the beginning of the financial year | (179) | (2,500) | (2,904) | - | (5,583) |
| Depreciation expense | - | (1,002) | (304) | - | (1,306) |
| Disposals | - | - | 274 | - | 274 |
| Balance at the end of the financial year | (179) | (3,502) | (2,934) | - | (6,615) |
| Carrying amount at 30 June 2019 | - | 2,651 | 546 | - | 3,197 |

| | 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) |
| 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 |

[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 2019 Opening balance $000 | Transitional adjustment $000 | Recognised in profit or loss $000 | Closing balance $000 |
|---|---|---|---|---|
| Provisions for employee benefits not yet deductible | 1,442 | - | (309) | 1,133 |
| Provision for impairment on loans not yet deductible | 94 | 93 | (2) | 185 |
| Prior year bad debts not yet deductible | 127 | - | (21) | 106 |
| Property, plant and equipment | 470 | - | 135 | 605 |
| Intangible assets | 73 | - | 14 | 87 |
| Accrued income not yet assessable | 147 | - | (54) | 93 |
| Accrued expenses not yet deductible | 82 | - | (37) | 45 |
| Prepayments | (2) | - | - | (2) |
| | 2,433 | 93 | (274) | 2,252 |

| | The Group 2018 Opening balance $000 | Transitional adjustment $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 Bank 2019 Opening balance $000 | Transitional adjustment $000 | Recognised in profit or loss $000 | Closing balance $000 |
|---|---|---|---|---|
| Provisions for employee benefits not yet deductible | 1,442 | - | (309) | 1,133 |
| Provision for impairment on loans not yet deductible | 94 | 93 | (2) | 185 |
| Prior year bad debts not yet deductible | 127 | - | (21) | 106 |
| Property, plant and equipment | 470 | - | 135 | 605 |
| Intangible assets | 73 | - | 14 | 87 |
| Accrued income not yet assessable | 147 | - | (54) | 93 |
| Accrued expenses not yet deductible | 82 | - | (37) | 45 |
| Prepayments | (2) | - | - | (2) |
| | 2,433 | 93 | (274) | 2,252 |

| | The Bank 2018 Opening balance $000 | Transitional adjustment $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 |

## 17. Intangible assets

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

| | The Group 2019 | | |
|---|---|---|---|
| | Computer software $000 | Work in progress[4] $000 | Total $000 |
| At cost | | | |
| Balance at the beginning of the financial year | 3,467 | 671 | 4,138 |
| Additions | - | 451 | 451 |
| Reclassifications | 1,004 | (1,004) | - |
| Disposals | - | - | - |
| Balance at the end of the financial year | 4,471 | 118 | 4,589 |
| Accumulated amortisation and impairment | | | |
| Balance at the beginning of the financial year | (3,299) | - | (3,299) |
| Amortisation expense | (436) | - | (436) |
| Disposals | - | - | - |
| Balance at the end of the financial year | (3,735) | - | (3,735) |
| Carrying amount at 30 June 2019 | 736 | 118 | 854 |

| | 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 |





## 17. Intangible assets (continued)

| | The Bank 2019 | | |
|---|---|---|---|
| | Computer software $000 | Work in progress[4] $000 | Total $000 |
| At cost | | | |
| Balance at the beginning of the financial year | 3,467 | 671 | 4,138 |
| Additions | - | 451 | 451 |
| Reclassifications | 1,004 | (1,004) | - |
| Disposals | - | - | - |
| Balance at the end of the financial year | 4,471 | 118 | 4,589 |
| Accumulated amortisation and impairment | | | |
| Balance at the beginning of the financial year | (3,299) | - | (3,299) |
| Amortisation expense | (436) | - | (436) |
| Disposals | - | - | - |
| Balance at the end of the financial year | (3,735) | - | (3,735) |
| Carrying amount at 30 June 2019 | 736 | 118 | 854 |

| | 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 |

[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 | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Prepayments | 767 | 606 | 767 | 606 |

## 19. Borrowings

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Securities sold under agreements to repurchase | 5,400 | 5,294 | 5,400 | 5,294 |
| Secured borrowings (refer to note 29) | 216,533 | 140,997 | 216,533 | 140,997 |
| | 221,933 | 146,291 | 221,933 | 146,291 |
| Deferred borrowing costs | (227) | (296) | (227) | (296) |
| Interest payable - borrowings | 239 | 218 | 239 | 218 |
| | 221,945 | 146,213 | 221,945 | 146,213 |
| a. Maturity analysis | | | | |
| At call | - | - | - | - |
| Not longer than three months | 7,119 | 6,586 | 7,119 | 6,586 |
| Longer than three months, not longer than one year | 5,302 | 3,979 | 5,302 | 3,979 |
| Longer than one year, not longer than five years | 29,418 | 21,714 | 29,418 | 21,714 |
| Longer than five years | 180,094 | 114,012 | 180,094 | 114,012 |
| | 221,933 | 146,291 | 221,933 | 146,291 |

| | 2018 $000 | Cash flows $000 | Non-cash movements $000 | 2019 $000 |
|---|---|---|---|---|
| b. Reconciliation of liabilities arising from financing activities | | | | |
| Securities sold under agreements to repurchase | 5,294 | 106 | - | 5,400 |
| Secured borrowings | 140,997 | 75,536 | - | 216,533 |
| Deferred borrowing costs | (296) | - | 69 | (227) |
| | 145,995 | 75,642 | 69 | 221,706 |

## 20. Deposits

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Members' redeemable preference shares | 582 | 698 | 582 | 698 |
| Call deposits | 790,967 | 718,954 | 790,967 | 718,954 |
| Term deposits | 1,067,172 | 1,046,435 | 1,067,172 | 1,046,435 |
| Electronic certificates of deposit | 222,066 | 178,015 | 222,066 | 178,015 |
| | 2,080,787 | 1,944,102 | 2,080,787 | 1,944,102 |
| Deferred borrowing costs | (63) | (47) | (63) | (47) |
| Interest payable - deposits | 11,714 | 9,841 | 11,714 | 9,841 |
| | 2,092,438 | 1,953,896 | 2,092,438 | 1,953,896 |
| a. Maturity analysis | | | | |
| At call | 791,549 | 719,652 | 791,549 | 719,652 |
| Not longer than three months | 525,473 | 546,445 | 525,473 | 546,445 |
| Longer than three months, not longer than one year | 659,763 | 601,747 | 659,763 | 601,747 |
| Longer than one year, not longer than five years | 104,002 | 76,258 | 104,002 | 76,258 |
| | 2,080,787 | 1,944,102 | 2,080,787 | 1,944,102 |

b. Concentration of deposits

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





## 21. Trade and other payables

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Trade creditors | 15 | - | 15 | - |
| Other operating payables | 269 | 395 | 269 | 395 |
| Accrued expenses | 1,795 | 1,902 | 1,795 | 1,902 |
| Unearned commissions | 488 | 683 | 488 | 683 |
| Unamortised lease incentive | 307 | 466 | 307 | 466 |
| | 2,874 | 3,446 | 2,874 | 3,446 |

## 22. Provisions

| | | | | |
|---|---|---|---|---|
| Provision for employee entitlements | 3,778 | 4,807 | 3,778 | 4,807 |
| Other provisions | 23 | 23 | 23 | 23 |
| | 3,801 | 4,830 | 3,801 | 4,830 |

Provisions are expected to be settled within one year with the exception of those provisions for employee entitlements related to long service leave which amount to $1,857 thousand (2018: $1,812 thousand).

## 23. Share capital

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Balance at the beginning of the financial year | 985 | 943 | 985 | 943 |
| Transfer on redemption of redeemable preference shares | 27 | 42 | 27 | 42 |
| Balance at the end of the financial year | 1,012 | 985 | 1,012 | 985 |

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

| | The Group 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| a. General reserve | | | | |
| Balance at the beginning of the financial year | 163,732 | 154,566 | 166,618 | 156,537 |
| AASB 9 transitional adjustment to retained earnings | (217) | - | (217) | - |
| Transfer to the general reserve for credit losses | (810) | (586) | (810) | (586) |
| Transfer from retained earnings | 10,015 | 9,752 | 11,063 | 10,667 |
| Balance at the end of the financial year | 172,720 | 163,732 | 176,654 | 166,618 |

## 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 | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Balance at the beginning of the financial year | 4,701 | 4,115 | 4,701 | 4,115 |
| Transfer from the general reserve for credit losses | 810 | 586 | 810 | 586 |
| Balance at the end of the financial year | 5,511 | 4,701 | 5,511 | 4,701 |

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 | | The Bank | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Profit from continuing operations after income tax | 10,042 | 9,794 | 11,090 | 10,709 |
| Transfers to share capital upon redemption of redeemable preference shares | (27) | (42) | (27) | (42) |
| Transfers to general reserve | (10,015) | (9,752) | (11,063) | (10,667) |
| 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 | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Profit for the year from continuing operations | 10,042 | 9,794 | 11,090 | 10,709 |
| Add non-cash items | | | | |
| Increase in provision on loans and advances | 214 | 237 | 214 | 237 |
| Amortisation of deferred borrowing costs | 69 | 44 | 69 | 44 |
| Depreciation of property, plant and equipment | 1,306 | 1,199 | 1,306 | 1,199 |
| Amortisation of intangible assets | 436 | 329 | 436 | 329 |
| Decrease / (increase) in assets | | | | |
| Interest receivable - Cash and cash equivalents | 35 | 25 | 35 | 25 |
| Interest receivable - Investments | (117) | (200) | (117) | (200) |
| Interest receivable - Loans and advances | 9 | - | 9 | - |
| Trade debtors | 179 | (236) | 179 | (236) |
| Prepaid expenses | (161) | 76 | (161) | 76 |
| Other operating receivables | (86) | (24) | (225) | (3,303) |
| Current tax assets | (314) | - | (314) | - |
| Deferred tax assets | 274 | 52 | 274 | 52 |
| Investments | (41,887) | (13,004) | (41,887) | (13,004) |
| Overdraft balances | 320 | 85 | 320 | 85 |
| Credit card balances | 720 | 526 | 720 | 526 |
| Term loans | (191,253) | (237,687) | (191,253) | (237,687) |
| Increase / (decrease) in liabilities | | | | |
| Interest payable - borrowings | 21 | (358) | 21 | (358) |
| Interest payable - deposits | 1,873 | 805 | 1,873 | 805 |
| Trade creditors | 15 | (45) | 15 | (45) |
| Accrued expenses | (107) | 494 | (107) | 494 |
| Unamortised lease incentive | (159) | (160) | (159) | (160) |
| Unearned commissions | (195) | 557 | (195) | 557 |
| Provision for employee benefits | (1,029) | (365) | (1,029) | (365) |
| Current tax liabilities | (23) | (157) | (23) | (157) |
| Other provisions | - | (3) | - | (3) |
| Members redeemable preference shares | (116) | (42) | (116) | (42) |
| Other operating payables | (126) | 108 | (126) | 108 |
| Call deposits | 72,013 | 51,525 | 72,013 | 51,525 |
| Term deposits | 20,737 | 80,448 | 20,737 | 80,448 |
| Electronic certificates of deposit | 44,035 | 80,018 | 44,035 | 80,018 |
| (Deduct) / add cash flows from investing activities included in operating profit | | | | |
| Gain on disposal of equipment | (34) | (5) | (34) | (5) |
| Loss on disposal of equipment | 9 | - | 9 | - |
| Net cash used in operating activities | (83,300) | (25,964) | (82,391) | (28,328) |

## 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 | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| Not longer than three months | 759 | 871 | 759 | 871 |
| Longer than three months, not longer than one year | 1,022 | 2,587 | 1,022 | 2,587 |
| Longer than one year, not longer than five years | 1,344 | 2,366 | 1,344 | 2,366 |
| Later than five years | - | - | - | - |
| | 3,125 | 5,824 | 3,125 | 5,824 |

## 28. Financial commitments

| Outstanding loan commitments | | | | |
|---|---|---|---|---|
| Loans approved but not advanced | 29,803 | 37,948 | 29,803 | 37,948 |
| Amounts available for redraw under term loans | 181,447 | 163,069 | 181,447 | 163,069 |
| Unused balance of revolving credit facilities | 43,101 | 44,702 | 43,101 | 44,702 |
| | 254,351 | 245,719 | 254,351 | 245,719 |

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 (2018: Nil). The balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $12,656 thousand (2018: $15,069 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 there were no eligible mortgage receivables transferred to the DBL Trust Repo Series No. 1 (2018: $200.1 million). 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. During the financial year, $110.5 million of eligible mortgage receivables were transferred to the ANZ Warehouse (2018: $64.0 million) with Senior A class RMBS issued to 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 | |
|---|---|---|---|---|
| | 2019 $ | 2018 $ | 2019 $ | 2018 $ |
| Deloitte Touche Tohmatsu | | | | |
| Audit or review of the financial statements | 92,950 | 89,500 | 92,950 | 89,500 |
| Regulatory and compliance engagements | 87,450 | 50,000 | 87,450 | 50,000 |
| Tax consulting engagements | - | 27,500 | - | 27,500 |
| | 180,400 | 167,000 | 180,400 | 167,000 |

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 seven non-executive directors, as well as eleven executive managers. The aggregate compensation made to key management personnel of the Group during the financial year is as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Non Executive Directors' remuneration: | | |
| Short-term employee benefits | 665,617 | 625,600 |
| Executive management remuneration: | | |
| Short-term employee benefits | 3,290,090 | 2,865,002 |
| Other long-term benefits | 91,965 | 327,061 |
| Termination benefits | - | 533,046 |
| | 3,382,055 | 3,725,109 |
| Total key management personnel remuneration: | | |
| Short-term employee benefits | 3,955,707 | 3,490,602 |
| Other long-term benefits | 91,965 | 327,061 |
| Termination benefits | - | 533,046 |
| | 4,047,672 | 4,350,709 |

Transactions with key management personnel

Key management personnel may have undertaken transactions 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 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 81,539 | 89,680 | 67,549 | 74,781 |
| Financial assets at amortised cost: | | | | |
| Investments | 270,764 | 228,760 | 270,764 | 228,760 |
| Trade and other receivables | 742 | 835 | 18,666 | 18,620 |
| Loans and advances | 2,138,233 | 1,948,553 | 2,138,233 | 1,948,553 |
| Financial assets at FVTOCI: | | | | |
| Equity investments | 1,639 | 1,639 | 1,639 | 1,639 |
| | 2,492,917 | 2,269,467 | 2,496,851 | 2,272,353 |
| Financial liabilities | | | | |
| At amortised cost: | | | | |
| Borrowings | 221,945 | 146,213 | 221,945 | 146,213 |
| Deposits | 2,092,438 | 1,953,896 | 2,092,438 | 1,953,896 |
| Trade and other payables | 2,874 | 3,446 | 2,874 | 3,446 |
| | 2,317,257 | 2,103,555 | 2,317,257 | 2,103,555 |

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 2019 $000 | The Group 2018 $000 | The Bank 2019 $000 | The Bank 2018 $000 |
|---|---|---|---|---|
| Profit after tax | 5,556 | 5,642 | 5,458 | 5,538 |
| Equity | 5,556 | 5,642 | 5,458 | 5,538 |

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:

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.

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 2019 | 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 | - | 81,539 | - | - | - | 81,539 |
| Financial assets at amortised cost: | | | | | | |
| Investments | 2,004 | 50,336 | 80,288 | 138,136 | - | 270,764 |
| Trade and other receivables | 742 | - | - | - | - | 742 |
| Loans and advances | 2,135,185 | - | - | - | 3,048 | 2,138,233 |
| Financial assets at FVTOCI: | | | | | | |
| Equity investments | - | 1,639 | - | - | - | 1,639 |
| | 2,137,931 | 133,514 | 80,288 | 138,136 | 3,048 | 2,492,917 |

| 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 |
| Financial assets at amortised cost: | | | | | | |
| Investments | - | 45,389 | 102,059 | 81,312 | - | 228,760 |
| Trade and other receivables | 835 | - | - | - | - | 835 |
| Loans and advances | 1,945,159 | - | - | - | 3,394 | 1,948,553 |
| Financial assets at FVTOCI: | | | | | | |
| Equity investments | - | 1,639 | - | - | - | 1,639 |
| | 1,945,994 | 136,708 | 102,059 | 81,312 | 3,394 | 2,269,467 |





32. Financial instruments (continued)

| The Bank 2019 | 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 | - | 67,549 | - | - | - | 67,549 |
| Financial assets at amortised cost: | | | | | | |
| Investments | 2,004 | 50,336 | 80,288 | 138,136 | - | 270,764 |
| Trade and other receivables | 18,666 | - | - | - | - | 18,666 |
| Loans and advances | 2,135,185 | - | - | - | 3,048 | 2,138,233 |
| Financial assets at FVTOCI: | | | | | | |
| Equity investments | - | 1,639 | - | - | - | 1,639 |
| | 2,155,855 | 119,524 | 80,288 | 138,136 | 3,048 | 2,496,851 |

| The Bank 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 | - | 74,781 | - | - | - | 74,781 |
| Financial assets at amortised cost: | | | | | | |
| Investments | - | 45,389 | 102,059 | 81,312 | - | 228,760 |
| Trade and other receivables | 18,620 | - | - | - | - | 18,620 |
| Loans and advances | 1,945,159 | - | - | - | 3,394 | 1,948,553 |
| Financial assets at FVTOCI: | | | | | | |
| Equity investments | - | 1,639 | - | - | - | 1,639 |
| | 1,963,779 | 121,809 | 102,059 | 81,312 | 3,394 | 2,272,353 |

[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 2019**

| | 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 | 445 | 1,056 | 575 | 43 | 929 | 3,048 |
| | 445 | 1,056 | 575 | 43 | 929 | 3,048 |

**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 Bank 2019**

| | 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 | 445 | 1,056 | 575 | 43 | 929 | 3,048 |
| | 445 | 1,056 | 575 | 43 | 929 | 3,048 |

**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 |





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 10% 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 2019 the Minimum Liquid Holdings ratio was 12.6% (2018: 12.6%).

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $000 | $000 | $000 | $000 |
| Overdraft facility: | | | | |
| Committed limit | 5,000 | 5,000 | 5,000 | 5,000 |
| Drawn amount | - | - | - | - |
| 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:

| | 2019 | 2018 |
|---|---|---|
| | $000 | $000 |
| Aaa(sf) rated RMBS | 301,389 | 359,308 |

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 2019 | 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 |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| At amortised cost: | | | | | | |
| Borrowings | - | 8,466 | 9,271 | 49,163 | 231,630 | 298,530 |
| Deposits | 791,549 | 532,607 | 676,025 | 109,752 | - | 2,109,933 |
| Trade and other payables | - | 2,874 | - | - | - | 2,874 |
| | 791,549 | 543,947 | 685,296 | 158,915 | 231,630 | 2,411,337 |

| The Group 2018 | 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 |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| 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 2019 | 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 |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| At amortised cost: | | | | | | |
| Borrowings | - | 8,466 | 9,271 | 49,163 | 231,630 | 298,530 |
| Deposits | 791,549 | 532,607 | 676,025 | 109,752 | - | 2,109,933 |
| Trade and other payables | - | 2,874 | - | - | - | 2,874 |
| | 791,549 | 543,947 | 685,296 | 158,915 | 231,630 | 2,411,337 |

| The Bank 2018 | 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 |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| 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 |





## 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 2019 $000 | Carrying amount 2018 $000 | Net fair value 2019 $000 | Net fair value 2018 $000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 81,539 | 89,680 | 81,539 | 89,680 |
| Financial assets at amortised cost: | | | | |
| Investments | 270,764 | 228,760 | 271,402 | 229,120 |
| Trade and other receivables | 742 | 835 | 742 | 835 |
| Loans and advances | 2,138,233 | 1,948,553 | 2,138,899 | 1,948,853 |
| Financial assets at FVTOCI: | | | | |
| Equity investments [6] | 1,639 | 1,639 | 1,639 | 1,639 |
| | 2,492,917 | 2,269,467 | 2,494,221 | 2,270,127 |
| Financial liabilities | | | | |
| At amortised cost: | | | | |
| Borrowings | 221,945 | 146,213 | 222,221 | 146,213 |
| Deposits | 2,092,438 | 1,953,896 | 2,095,528 | 1,955,638 |
| Trade and other payables | 2,874 | 3,446 | 2,874 | 3,446 |
| | 2,317,257 | 2,103,555 | 2,320,623 | 2,105,297 |

| The Bank | Carrying amount 2019 $000 | Carrying amount 2018 $000 | Net fair value 2019 $000 | Net fair value 2018 $000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 67,549 | 74,781 | 67,549 | 74,781 |
| Financial assets at amortised cost: | | | | |
| Investments | 270,764 | 228,760 | 271,402 | 229,120 |
| Trade and other receivables | 18,666 | 18,620 | 18,666 | 18,620 |
| Loans and advances | 2,138,233 | 1,948,553 | 2,138,899 | 1,948,853 |
| Financial assets at FVTOCI: | | | | |
| Equity investments [6] | 1,639 | 1,639 | 1,639 | 1,639 |
| | 2,496,851 | 2,272,353 | 2,498,155 | 2,273,013 |
| Financial liabilities | | | | |
| At amortised cost: | | | | |
| Borrowings | 221,945 | 146,213 | 222,221 | 146,213 |
| Deposits | 2,092,438 | 1,953,896 | 2,095,528 | 1,955,638 |
| Trade and other payables | 2,874 | 3,446 | 2,874 | 3,446 |
| | 2,317,257 | 2,103,555 | 2,320,623 | 2,105,297 |

[6] Equity investments represents shares in Cuscal Limited (refer to note 11). These shares are carried at cost as their fair 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 19 | | | |
| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
| Financial assets | | | | |
| Cash and cash equivalents | 81,539 | - | - | 81,539 |
| Financial assets at amortised cost: | | | | |
| Investments | - | 271,402 | - | 271,402 |
| Trade and other receivables | - | - | 742 | 742 |
| Loans and advances | - | - | 2,138,899 | 2,138,899 |
| Financial assets at FVTOCI: | | | | |
| Equity investments | - | - | 1,639 | 1,639 |
| | 81,539 | 271,402 | 2,141,280 | 2,494,221 |
| Financial liabilities | | | | |
| At amortised cost: | | | | |
| Borrowings | - | - | 222,221 | 222,221 |
| Deposits | - | - | 2,095,528 | 2,095,528 |
| Trade and other payables | - | - | 2,874 | 2,874 |
| | - | - | 2,320,623 | 2,320,623 |

| | The Group | | | |
|---|---|---|---|---|
| | Fair value hierarchy as at 30 June 18 | | | |
| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
| Financial assets | | | | |
| Cash on hand and on deposit | 89,680 | - | - | 89,680 |
| Financial assets at amortised cost: | | | | |
| Investments | - | 229,120 | - | 229,120 |
| Trade and other receivables | - | - | 835 | 835 |
| Loans and advances | - | - | 1,948,853 | 1,948,853 |
| Financial assets at FVTOCI: | | | | |
| 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 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 19 | | | |
| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
| Financial assets | | | | |
| Cash and cash equivalents | 67,549 | - | - | 67,549 |
| Financial assets at amortised cost: | | | | |
| Investments | - | 271,402 | - | 271,402 |
| Trade and other receivables | - | - | 18,666 | 18,666 |
| Loans and advances | - | - | 2,138,899 | 2,138,899 |
| Financial assets at FVTOCI: | | | | |
| Equity investments | - | - | 1,639 | 1,639 |
| | 67,549 | 271,402 | 2,159,204 | 2,498,155 |
| Financial liabilities | | | | |
| At amortised cost: | | | | |
| Borrowings | - | - | 222,221 | 222,221 |
| Deposits | - | - | 2,095,528 | 2,095,528 |
| Trade and other payables | - | - | 2,874 | 2,874 |
| | - | - | 2,320,623 | 2,320,623 |

| | The Bank | | | |
|---|---|---|---|---|
| | Fair value hierarchy as at 30 June 18 | | | |
| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
| Financial assets | | | | |
| Cash on hand and on deposit | 74,781 | - | - | 74,781 |
| Financial assets at amortised cost: | | | | |
| Investments | - | 229,120 | - | 229,120 |
| Trade and other receivables | - | - | 18,620 | 18,620 |
| Loans and advances | - | - | 1,948,853 | 1,948,853 |
| Financial assets at FVTOCI: | | | | |
| 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 |

# Notes to the financial statements

for the financial year ended 30 June 2019

## 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 | |
|---|---|---|---|---|
| | 2019 % | 2018 % | 2019 % | 2018 % |
| Common Equity Tier 1 ratio | 13.9 | 14.4 | 13.9 | 14.4 |
| Total Tier 1 Capital ratio | 13.9 | 14.4 | 13.9 | 14.4 |
| Tier 2 Capital ratio | 0.4 | 0.4 | 0.4 | 0.4 |
| Total Capital ratio | 14.3 | 14.8 | 14.3 | 14.8 |

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 14 October 2019.



# Directors' declaration

We, Frances Raymond and Anne Myers, 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 2019.

F Raymond
Director
14 October 2019

A Myers
Director
14 October 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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# 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 2019, 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 2019 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 2019, 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.

# Independent auditor's report

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Lani Cockrem

Lani Cockrem
Partner
Chartered Accountants
Melbourne, 14 October 2019



# Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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14 October 2019

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

Dear Board Members

**Auditor's Independence Declaration to Defence Bank Limited**

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

As lead audit partner for the audit of the financial statements of Defence Bank Limited for the financial year ended 30 June 2019, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Lani Cockrem

Lani Cockrem
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<br>MELBOURNE VIC 3000 |
| Corporate rating | Standard and Poor's<br>BBB / Stable / A-2 |
| Mail address | PO Box 14537<br>MELBOURNE VIC 8001 |
| Telephone numbers | (03) 8624 5888<br>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. |

# We count on you.
## And you can count on us.

- 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.
Support Office, Level 5, 31 Queen Street, Melbourne VIC 3000.

AFR19 (10/2019)