BIG YEAR

2019-2020 ANNUAL FINANCIAL REPORT

Defence Bank Limited.

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

AFR20 (10/2020)

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 2020. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

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

Name	Qualifications and Roles	Appointment period
Ms Frances Helen RAYMOND	BCom, MBA, FCA, FAICD, GDPPM, FSAA *(Chair of the Board)*	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 *(Chair of the Governance & Remuneration Committee)*	Initially appointed to the Board on 5 May 2012. Most recently re-elected to the Board on 25 November 2019.
Ms Anne MYERS	MBA (AGSM), GAICD *(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 *(Chair of the Risk and Compliance 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.
Rear Admiral, RAN Ian Gordon MURRAY	BA, GradDipHRM, MDefStud, MA, MBA, GAICD, CAHRI, FCILT, psc	Initially elected to the Board on 21 November 2016. Most recently re-elected to the Board on 25 November 2019
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. Retired from the Board on 25 November 2019.

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

Directors' meetings

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

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

[1] P J Mason was granted a leave of absence for four Board meetings and one Audit Committee meeting due to active service requirements.

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 $10,056 thousand (2019: $10,042 thousand) after providing $4,266 thousand (2019: $4,304 thousand) for income tax expense.

b. **Deposit and lending growth**

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

	2020 $000	2019 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	2,750,930	2,500,301	250,629	10.0
Total deposits	2,204,707	2,092,438	112,269	5.4
Total equity	188,979	179,243	9,736	5.4
Net loans and advances	2,312,050	2,138,233	173,817	8.1
Securitised housing loans (off balance sheet)	10,244	12,656	(2,412)	(19.1)
Total loans and advances (on and off balance sheet)	2,322,294	2,150,889	171,405	8.0

c. **Distribution network**

The Bank continues to maintain the largest on-base branch network in the Australian Defence Force (ADF). 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, branches at Oakey, Laverton, Bonegilla and Pearce were closed during the year. The Bank has also installed 2 new ATM's at Kapooka and Bourke St.

d. **Partnerships**

The Bank has continued its strategy of partnering with like minded organisations to support its members. During the year the Bank entered into partnership agreements with Military Wives, Navy Canteens and Raytheon Australia.

e. **Product development**

The Bank continues to improve products and services for members. This year saw a significant revision to the Bank's range of transaction accounts with 9 legacy products being closed with all members holding accounts under these products being migrated to the Bank's Everyday Access account. Simultaneously, the Bank removed the minimum monthly deposit requirement on the Everyday Access account creating a fee free transaction account. Also during the financial year the Bank was approved as a panel lender under the Commonwealth Governments First Home Loan Deposit Scheme and has assisted a number of new members acquire their first home.

Review of operations (continued)

f. 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.

g. 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 several upgrades to its mobile banking app, which introduced significantly enhanced functionality, such as the ability to name accounts, update contact details, 'quick view' balances, receive secure messages and instantly provision cards, all within the app. In addition the Bank updated its online member onboarding process which allows new members to join the Bank and open accounts online in under 3 minutes.

h. Community involvement
The Bank has continued to support the Defence Community, although at lesser rate than previous years due to COVID 19 restrictions, through sponsorships diverse as DCO welcome days, sporting teams across rugby, AFL and golf as well as the NT Officers Annual Ball. The Bank also supports the Defence Community through donations to organisations such as the Salvation Army Sallyman Trucks and Military Wives Choir. The Bank considers itself a proud member of the Defence Community and remains committed to giving back to the community it serves.

i. Staff engagement
The Bank surveys its staff on an annual basis and for the second year this survey was outsourced to Insync, an independent research agency. Staff engagement was measured at 80%, up from 71% at 30 June 2019, which ranks in the top decile of results when compared to peer financial services organisations. In March 2020 the Bank was honoured to once again be a finalist in the Excellence in Supporting Spouse Employment at the Prime Minister's Veterans' Employment Awards, following our win in 2019.

j. 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.

k. Member experience
During the financial year the Bank continued to measure Net Promoter Score and Member Effort Score through a monthly survey of a sample of members. The Net Promoter Score improved from +31 to +49 over the financial year whilst the Member Effort Score increased from 80% to 86%.

l. COVID 19
The Bank, being considered an essential service, has continued to trade through the COVID 19 pandemic. Measures have been put in place to protect the health of both members and employees across the branch network and at the Bank's support office in Melbourne. In addition, the Bank moved quickly to offer assistance to those members financially impacted by COVID 19 through a number of means including loan conversions to interest only payments and/or repayment deferrals. The number of members granted assistance remains modest at approximately 1% of total loans by value. Further detail on the Bank's level of COVID 19 assistance is provided in the notes to the financial statements.

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

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

Subsequent events
The outbreak of the COVID-19 coronavirus, and the subsequent quarantine measures imposed, have caused disruption to businesses and economic activity. As the Group's core operation is the provision of banking services to ADF personnel, it has not been impacted significantly by COVID-19.

Since the end of the financial year, the Bank has continued to offer assistance to those members that have been financially impacted by the COVID-19 pandemic, and has conducted ongoing dialogue with those members that have been granted financial assistance. Following the end of the financial year, and at the date these accounts are issued, 69 loans representing a total of $13.8 million have exited hardship arrangements and are now receiving full or partial payments, and 31 loans totalling $10.5 million are currently in hardship arrangements. This represents an improvement since the end of the financial year, and the directors do not believe that COVID-19, or any other matters or circumstances arising since the end of the financial year, will 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 2019, 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 60.

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
Chair of the Board
5 October 2020

A Myers
Chair of the Audit Committee
5 October 2020

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2020

	Notes	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Income					
Interest income	5	80,988	88,144	80,889	87,926
Interest expense	5	(33,083)	(42,281)	(33,083)	(42,281)
Net interest income		47,905	45,863	47,806	45,645
Other income	6	7,928	8,216	9,434	9,331
		55,833	54,079	57,240	54,976
Expenses					
Personnel expenses	6	21,351	20,619	21,351	20,619
Depreciation and amortisation expense	6	2,961	1,742	2,961	1,742
Increase in provision on loans and advances	14	607	214	607	214
Other expenses	6	16,592	17,158	16,380	17,007
		41,511	39,733	41,299	39,582
Profit before income tax		14,322	14,346	15,941	15,394
Income tax expense	7	4,266	4,304	4,266	4,304
Profit for the year from continuing operations		10,056	10,042	11,675	11,090
Other comprehensive income		-	-	-	-
Total comprehensive income		10,056	10,042	11,675	11,090

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2020

	Notes	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Assets					
Cash and cash equivalents	9	98,279	81,539	65,429	67,549
Investments	10	330,222	270,764	330,222	270,764
Equity investments	11	1,639	1,639	1,639	1,639
Trade and other receivables	13	361	742	38,764	18,666
Loans and advances	14	2,312,050	2,138,233	2,312,050	2,138,233
Current tax assets		-	314	-	314
Property, plant and equipment	15	2,109	3,197	2,109	3,197
Right of use assets	16	1,525	-	1,525	-
Deferred tax assets	17	2,739	2,252	2,739	2,252
Intangible assets	18	1,130	854	1,130	854
Other assets	19	876	767	876	767
		2,750,930	2,500,301	2,756,483	2,504,235
Liabilities					
Borrowings	20	347,178	221,945	347,178	221,945
Lease liabilities	21	1,945	-	1,945	-
Deposits	23	2,204,707	2,092,438	2,204,707	2,092,438
Trade and other payables	24	2,855	2,874	2,855	2,874
Current tax liabilities		1,027	-	1,027	-
Provisions	25	4,239	3,801	4,239	3,801
		2,561,951	2,321,058	2,561,951	2,321,058
Net assets		188,979	179,243	194,532	183,177
Equity					
Share capital	26	1,031	1,012	1,031	1,012
Reserves	27	187,948	178,231	193,501	182,165
Retained earnings	28	-	-	-	-
		188,979	179,243	194,532	183,177

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the financial year ended 30 June 2020

The Group — 2020

	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2019	1,012	5,511	172,720	-	179,243
AASB 16 transitional adjustment to retained earnings, net of tax	-	-	(320)	-	(320)
Transfer on redemption of redeemable member shares	19	-	-	(19)	-
Transfer to general reserve for credit losses	-	437	(437)	-	-
Profit for the financial year	-	-	-	10,056	10,056
Transfer to general reserve	-	-	10,037	(10,037)	-
Balance at 30 June 2020	1,031	5,948	182,000	-	188,979

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 9 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

Consolidated statement of changes in equity

for the financial year ended 30 June 2020

The Bank — 2020

	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2019	1,012	5,511	176,654	-	183,177
AASB 16 transitional adjustment to retained earnings, net of tax	-	-	(320)	-	(320)
Transfer on redemption of redeemable member shares	19	-	-	(19)	-
Transfer to general reserve for credit losses	-	437	(437)	-	-
Profit for the financial year	-	-	-	11,675	11,675
Transfer to general reserve	-	-	11,656	(11,656)	-
Balance at 30 June 2020	1,031	5,948	187,553	-	194,532

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 9 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 accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the financial year ended 30 June 2020

	Notes	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Cash flows from operating activities					
Interest received		81,537	88,071	81,438	87,853
Fees and commissions received		7,551	8,213	7,551	8,213
Other income received		627	299	2,133	1,414
Dividends received		180	68	180	68
Recoveries on loans previously written off		112	94	112	94
Goods and services tax refunded		631	542	631	542
Interest paid		(37,546)	(40,318)	(37,546)	(40,318)
Payments to suppliers and employees		(38,368)	(40,259)	(38,156)	(40,108)
Tax collected/ (paid) on retirement savings accounts		510	(144)	510	(144)
Income tax paid		(3,785)	(4,223)	(3,785)	(4,223)
Cash flows from operating activities before changes in operating assets and liabilities		11,449	12,343	13,068	13,391
Net increase in investments		(59,977)	(41,887)	(59,977)	(41,887)
Net increase in loans and advances		(174,424)	(190,213)	(174,424)	(190,213)
Net decrease/ (increase) in other operating receivables		150	(86)	(20,329)	(225)
Net increase in deposits		116,743	136,669	116,743	136,669
Net increase/ (decrease) in other operating payables		99	(126)	99	(126)
Net cash used in operating activities	29	(105,960)	(83,300)	(124,820)	(82,391)
Cash flows from investing activities					
Proceeds on disposal of property, plant and equipment		8	86	8	86
Purchases of property, plant and equipment	15	(119)	(83)	(119)	(83)
Purchases of intangible assets	18	(923)	(451)	(923)	(451)
Net cash used in investing activities		(1,034)	(448)	(1,034)	(448)
Cash flows from financing activities					
Net increase in borrowings	22	125,220	75,642	125,220	75,642
Net decrease in lease liabilities	22	(1,456)	-	(1,456)	-
Net cash flow from financing activities		123,764	75,642	123,764	75,642
Net increase/ (decrease) in cash and cash equivalents		16,770	(8,106)	(2,090)	(7,197)
Cash and cash equivalents at the beginning of the financial year		81,497	89,603	67,507	74,704
Cash and cash equivalents at the end of the financial year	9	98,267	81,497	65,417	67,507

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2020

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 ("the Bank") and its controlled entities, as disclosed within 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 2019, and therefore relevant for the current year end.

AASB 16 Leases

In the current year, the Group has applied AASB 16 Leases, effective for annual periods that begin on or after 1 January 2019.

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 was 1 July 2019.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, and requires the recognition of a right of use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group has chosen the cumulative catch-up approach for the adoption of AASB 16. Under this method, prior year comparatives have not been restated, and the Group has recognised 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. The impact of the adoption of AASB 16 on the Group's consolidated financial statements is described below.

Impact of the new definition of a lease

The Group has made 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 be applied to those leases entered or modified before 1 July 2019.

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

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 has applied 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 carried out an implementation project. The project showed that the new definition in AASB 16 has not significantly changed the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

Operating leases
AASB 16 has changed 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:

- Recognised right of use assets and lease liabilities in the consolidated statement of financial position, initially measured at 1 July 2019 as the present value of the future lease payments, discounted by a weighted average incremental borrowing rate of 2.18%.

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

- Separated 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) are 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 replaces the previous requirement to recognise a provision for onerous lease contracts.

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 has opted to recognise a lease expense on a straight-line basis, as permitted by AASB 16. These expenses are presented within "Other expenses" in the statement of profit or loss.

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

The directors of the Group reviewed and assessed the Group's existing financial assets and liabilities as at 1 July 2019, based on the facts and circumstances that existed at that date, and concluded that the initial application of AASB 16 had the following impact on the Group's financial assets and liabilities, regarding their classification and measurement.

	Reported under AASB 117 $'000	Reported under AASB 16 $'000	Transitional adjustment $'000
Right of use assets (note 16)	-	2,188	2,188
Lease liabilities	-	(2,952)	(2,952)
Unamortised lease incentive (note 24)	(307)	-	307
Tax impact			137
AASB 16 transitional adjustment to retained earnings, net of tax			(320)

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

The AASB 16 transitional adjustment has resulted in a $320 thousand after-tax reduction to opening retained earnings, at 1 July 2019. Refer to Notes 16, 21 and 24 for further information.

The application of AASB 16 has an impact on the consolidated statement of cash flows of the Group. Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities (the Group has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities.

Consequently, the net cash used in operating activities has decreased by $1,456 thousand, being the lease payments, and net cash generated by financing activities has decreased by the same amount.

The adoption of AASB 16 did not have an impact on net cash flows.

Interpretation 23 Uncertainty over income tax treatments

The Group has adopted Interpretation 23 for the first time in the current year. Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

If appropriate, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If not, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

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 17 - "*Insurance Contracts*"	1 January 2021	30 June 2022
Amendments to AASB 3 - *"Business Combinations"*	1 January 2020	30 June 2021
Amendments to AASB 101 - "*Presentation of financial statements*", and AASB 108 - "*Accounting Policies, Changes in Accounting Estimates and Errors*"	1 January 2020	30 June 2021

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 5 October 2020.

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.

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

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

The Group assesses whether a contract is, or contains, a lease at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used). - A lease

3. Significant accounting policies (continued)

e. Leasing (continued)

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right of use asset, the costs are included in the related right of use asset.

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Group expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right of use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in the statement of profit or loss.

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 and long service 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.

<u>Current tax</u>
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.

3. Significant accounting policies (continued)

g. Taxation (continued)

<u>Deferred tax</u>
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 purchases or sales of financial assets are recognised and derecognised on a trade date basis. 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 FVTPL and stated at cost, as this is the best estimate of fair value. 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. The Group has accepted the rebuttable presumption within AASB 9 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.

<u>Financial liabilities</u>
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.

Deposits
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.

Notes to the financial statements

for the financial year ended 30 June 2020

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.

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.

<u>Financial assets at amortised cost</u>
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 $330,222 thousand (2019: $270,764 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.

<u>Provision for impairment of loans and advances</u>
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		
	2020		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	88,677	530	0.60
Investments	296,379	4,580	1.55
Loans and advances	2,221,589	75,878	3.42
	2,606,645	80,988	3.11
Financial liabilities			
Borrowings	284,449	5,306	1.87
Deposits	2,140,185	27,726	1.30
	2,424,634	33,032	1.36
Lease liabilities	2,317	51	2.20
Net interest income		47,905	

	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
	2,376,323	88,144	3.71
Financial liabilities			
Borrowings	193,197	5,937	3.07
Deposits	2,012,248	36,344	1.81
	2,205,445	42,281	1.92
Lease liabilities	-	-	-
Net interest income		45,863	

5. Interest income and interest expense (continued)

	The Bank		
	2020		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	67,544	431	0.64
Investments	296,379	4,580	1.55
Loans and advances	2,221,589	75,878	3.42
	2,585,512	80,889	3.13
Financial liabilities			
Borrowings	284,449	5,306	1.87
Deposits	2,140,185	27,726	1.30
	2,424,634	33,032	1.36
Lease liabilities	2,317	51	2.20
Net interest income		47,806	

	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
	2,359,586	87,926	3.73
Financial liabilities			
Borrowings	193,197	5,937	3.07
Deposits	2,012,248	36,344	1.81
	2,205,445	42,281	1.92
Lease liabilities	-	-	-
Net interest income		45,645	

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	
	2020	2019	2020	2019
	$000	$000	$000	$000
Other income				
Dividends	180	68	180	68
Fee income arising from financial assets	350	339	350	339
Fee income arising from financial liabilities	189	151	189	151
Other transaction fee income	968	1,103	968	1,103
Other service fee income	1,941	2,203	1,941	2,203
Other fee income	18	20	18	20
Insurance commissions	1,879	1,925	1,879	1,925
Other commissions	1,662	1,980	1,662	1,980
Gain on disposal of property, plant and equipment	2	34	2	34
Bad debts recovered	112	94	112	94
Other income	627	299	2,133	1,414
	7,928	8,216	9,434	9,331
Personnel expenses				
Employee benefits	18,773	18,436	18,773	18,436
Provision for employee benefits	372	(225)	372	(225)
Termination benefits	111	38	111	38
Other personnel expenses	2,095	2,370	2,095	2,370
	21,351	20,619	21,351	20,619
Depreciation and amortisation expense				
Plant and equipment	237	304	237	304
Buildings and leasehold improvements	963	1,002	963	1,002
Computer software	647	436	647	436
Right of use assets	1,114	-	1,114	-
	2,961	1,742	2,961	1,742
Other expenses				
Loss on disposal of property, plant and equipment	1	9	1	9
Occupancy expenses	644	1,690	644	1,690
Information technology expenses	4,493	4,300	4,493	4,300
External financial transaction processing fees and charges	3,183	3,380	3,183	3,380
Telephone expenses	478	355	478	355
Administration expenses	2,314	2,656	2,314	2,656
Marketing and promotion	2,377	1,760	2,377	1,760
Other expenses from ordinary activities	3,102	3,008	2,890	2,857
	16,592	17,158	16,380	17,007

Occupancy expenses consist of variable outgoings such as utilities and other similar services. These expenses do not form part of our rental leases which, commencing 1 July 2019, are accounted for under AASB 16 and are disclosed in notes 16 and 21.

7. Income tax expense

Income tax expenses recognised in profit or loss:

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Current tax expense:				
- in respect of current year	4,609	4,036	4,609	4,036
- in respect of prior year	7	(6)	7	(6)
Deferred tax income relating to the origination and reversal of temporary differences	(350)	274	(350)	274
Income tax expense	4,266	4,304	4,266	4,304

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

	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Profit before income tax	14,322	14,346	15,941	15,394
Income tax calculated at 30% (2019: 30%)	4,297	4,304	4,782	4,618
Effect of expenses that are not deductible in determining taxable profit	16	26	1,588	1,787
Effect of income that is not assessable in determining taxable profit	-	-	(8,579)	(8,171)
Effect of income that is assessable in determining taxable profit	23	9	6,545	6,105
Effect of imputation credits	(77)	(29)	(77)	(29)
Adjustments recognised in the current year in relation to current tax of prior years	7	(6)	7	(6)
Income tax expense	4,266	4,304	4,266	4,304

8. Franking credits balance

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

	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Franking account balance as at the end of the financial year at 30% (2019: 30%)	95,582	89,982	95,582	89,982
Franking credits that will decline from the refund of income tax receivable as at the end of the financial year	(1,269)	(2,099)	(1,269)	(2,099)
	94,313	87,883	94,313	87,883

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	
	2020	2019	2020	2019
	$000	$000	$000	$000
Cash on hand	2,699	2,591	2,699	2,591
Call deposits with ADIs	62,718	64,916	62,718	64,916
Restricted cash on deposit with ADIs	32,850	13,990	-	-
	98,267	81,497	65,417	67,507
Interest receivable - cash and cash equivalents	12	42	12	42
	98,279	81,539	65,429	67,549

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	
	2020	2019	2020	2019
	$000	$000	$000	$000
Term deposits with ADIs	19,950	26,950	19,950	26,950
Negotiable certificates of deposit	116,048	107,113	116,048	107,113
Floating rate notes	193,668	135,626	193,668	135,626
	329,666	269,689	329,666	269,689
Interest receivable - investments	556	1,075	556	1,075
	330,222	270,764	330,222	270,764
a. Maturity analysis				
Not longer than three months	95,219	103,359	95,219	103,359
Longer than three months, not longer than one year	94,799	66,827	94,799	66,827
Longer than one year, not longer than five years	139,648	99,503	139,648	99,503
	329,666	269,689	329,666	269,689

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	2020 % owned	2019 % owned
DBL Funding Trust No. 1	Australia	100%	100%

Transactions with controlled entities	2020	2019
The following transactions occurred with controlled entities:	$000	$000
Receipts		
Servicer fee	1,255	931
Trust manager fee	84	62
Trust administrator fee	167	124
Payments		
Payment of offset interest amounts under terms of trust deed	5,079	6,049

13. Trade and other receivables

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Other operating receivables [1]	105	255	38,508	18,179
Trade debtors [2]	256	487	256	487
	361	742	38,764	18,666

[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 2020 there are no past due or impaired trade and other receivables (2019: Nil).

14. Loans and advances

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Overdrafts	3,751	4,884	3,751	4,884
Credit cards	9,044	11,401	9,044	11,401
Term loans	2,296,442	2,118,613	2,296,442	2,118,613
Gross loans and advances	2,309,237	2,134,898	2,309,237	2,134,898
Provision for impairment	(1,048)	(614)	(1,048)	(614)
Deferred loan fee income	(918)	(943)	(918)	(943)
Deferred loan origination expenses	4,779	4,892	4,779	4,892
Net loans and advances	2,312,050	2,138,233	2,312,050	2,138,233

14. Loans and advances (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
a. Contractual maturity analysis				
Overdrafts	3,751	4,884	3,751	4,884
Not longer than three months	25,107	21,741	25,107	21,741
Longer than three months, not longer than one year	75,434	64,824	75,434	64,824
Longer than one year, not longer than five years	376,941	324,433	376,941	324,433
Longer than five years	1,828,004	1,719,016	1,828,004	1,719,016
	2,309,237	2,134,898	2,309,237	2,134,898
b. Loans by security type				
Mortgage over property				
- Loan to value ratio up to and including 80%	1,592,798	1,455,178	1,592,798	1,455,178
- Loan to value ratio over 80% with mortgage insurance	530,559	490,796	530,559	490,796
- Loan to value ratio over 80% without mortgage insurance	50,076	51,752	50,076	51,752
	2,173,433	1,997,726	2,173,433	1,997,726
Mortgage over other assets	87,210	83,223	87,210	83,223
Unsecured	48,594	53,949	48,594	53,949
	2,309,237	2,134,898	2,309,237	2,134,898
c. Loans by purpose				
Residential owner-occupied property	1,895,311	1,772,551	1,895,311	1,772,551
Residential investment property	277,271	224,282	277,271	224,282
Commercial property	850	763	850	763
Other	135,805	137,302	135,805	137,302
	2,309,237	2,134,898	2,309,237	2,134,898
d. Loans by state				
New South Wales	511,934	461,292	511,934	461,292
Victoria	289,825	265,836	289,825	265,836
Queensland	750,483	708,504	750,483	708,504
South Australia	180,425	165,933	180,425	165,933
Western Australia	179,086	167,326	179,086	167,326
Tasmania	16,747	17,093	16,747	17,093
Northern Territory	65,534	67,139	65,534	67,139
Australian Capital Territory	315,203	281,775	315,203	281,775
	2,309,237	2,134,898	2,309,237	2,134,898

e. Loans by risk grade

	2020			
	Stage 1	Stage 2	Stage 3	Total
	$000	$000	$000	$000
Overdrafts	3,722	29	-	3,751
Credit cards	8,979	65	-	9,044
Term loans	2,272,773	469	23,200	2,296,442
Gross loans and advances	2,285,474	563	23,200	2,309,237

	2019			
	Stage 1	Stage 2	Stage 3	Total
	$000	$000	$000	$000
Overdrafts	4,867	17	-	4,884
Credit cards	11,344	57	-	11,401
Term loans	2,115,446	2,845	322	2,118,613
Gross loans and advances	2,131,657	2,919	322	2,134,898

14. Loans and advances (continued)

	The Group		The Bank	
	2020	2019	2020	2019
f. Loss allowance	$000	$000	$000	$000
Balance at the beginning of the financial year	614	311	614	311
Adjustment to impairment - AASB 9	-	310	-	310
Increase in provision on loans and advances	607	214	607	214
Bad debts written off	(173)	(221)	(173)	(221)
Balance at the end of the financial year	1,048	614	1,048	614

	Stage 1	Stage 2	Stage 3	Individually assessed	Collectively assessed	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Loss allowance at 1 July 2019	269	249	96	-	-	614
Changes in the loss allowance						
- Transfer to stage 1	52	(52)	-	-	-	-
- Transfer to stage 2	(2)	35	(33)	-	-	-
- Transfer to stage 3	-	(2)	2	-	-	-
- Loans written off	(1)	(55)	(13)	-	-	(69)
- Loans paid off	(58)	(58)	(2)	-	-	(118)
- Net change in credit risk	(117)	184	384	-	-	451
New loans and advances originated	86	3	81	-	-	170
Loss allowance at 30 June 2020	229	304	515	-	-	1,048

	Stage 1	Stage 2	Stage 3	Individually assessed	Collectively assessed	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Loss allowance at 30 June 2018	-	-	-	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 2020	269	249	96	-	-	614

g. 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.

14. Loans and advances (continued)

h. 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 $9 thousand (2019: $8 thousand) and were used to offset associated credit losses. The value of assets obtained through enforcement of security at reporting date was $nil (2019: $nil).

15. Property, plant and equipment

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

	The Group 2020				
	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	6,153	3,480	-	9,812
Additions	-	61	58	-	119
Disposals	-	(57)	(67)	-	(124)
Reclassifications	-	-	-	-	-
Balance at the end of the financial year	179	6,157	3,471	-	9,807
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(3,502)	(2,934)	-	(6,615)
Depreciation expense	-	(962)	(238)	-	(1,200)
Disposals	-	56	61	-	117
Balance at the end of the financial year	(179)	(4,408)	(3,111)	-	(7,698)
Carrying amount at 30 June 2020	-	1,749	360	-	2,109

	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

15. Property, plant and equipment (continued)

	The Bank 2020				
	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	6,153	3,480	-	9,812
Additions	-	61	58	-	119
Disposals	-	(57)	(67)	-	(124)
Reclassifications	-	-	-	-	-
Balance at the end of the financial year	179	6,157	3,471	-	9,807
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(3,502)	(2,934)	-	(6,615)
Depreciation expense	-	(962)	(238)	-	(1,200)
Disposals	-	56	61	-	117
Balance at the end of the financial year	(179)	(4,408)	(3,111)	-	(7,698)
Carrying amount at 30 June 2020	-	1,749	360	-	2,109

	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

[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. Right of use assets

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

	The Group			
	2020			
	Buildings $000	Computer equipment $000	Motor vehicles $000	Total $000
At cost				
Balance at the beginning of the financial year	-	-	-	-
Reclassification on adoption of AASB 16	1,689	225	274	2,188
Additions	367	21	63	451
Balance at the end of the financial year	2,056	246	337	2,639
Accumulated depreciation and impairment				
Balance at the beginning of the financial year	-	-	-	-
Depreciation expense	(878)	(103)	(133)	(1,114)
Balance at the end of the financial year	(878)	(103)	(133)	(1,114)
Carrying amount at 30 June 2020	1,178	143	204	1,525

	The Bank			
	2020			
	Buildings $000	Computer equipment $000	Motor vehicles $000	Total $000
At cost				
Balance at the beginning of the financial year	-	-	-	-
Reclassification on adoption of AASB 16	1,689	225	274	2,188
Additions	367	21	63	451
Balance at the end of the financial year	2,056	246	337	2,639
Accumulated depreciation and impairment				
Balance at the beginning of the financial year	-	-	-	-
Depreciation expense	(878)	(103)	(133)	(1,114)
Balance at the end of the financial year	(878)	(103)	(133)	(1,114)
Carrying amount at 30 June 2020	1,178	143	204	1,525

Total cash outflows for the year, in relation to lease obligations, are $1,525 thousand. Of this, $nil relates to short term leases, and $19 thousand relates to leases of low value assets, neither of which are accounted for under AASB 16, instead being immediately recognised through the statement of profit or loss.

17. Deferred tax assets

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

	The Group			
	2020			
	Opening balance $000	Transitional adjustment $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,133	-	130	1,263
Provision for impairment on loans not yet deductible	185	-	130	315
Prior year bad debts not yet deductible	106	-	2	108
Property, plant and equipment	605	-	163	768
Lease expenses not yet deductible	-	230	(135)	95
Intangible assets	87	-	38	125
Accrued income not yet assessable	93	(93)	-	-
Accrued expenses not yet deductible	45	-	22	67
Prepayments	(2)	-	-	(2)
	2,252	137	350	2,739

	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
Lease expenses not yet deductible	-	-	-	-
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

17. Deferred tax assets (continued)

	The Bank 2020 Opening balance $000	Transitional adjustment $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,133	-	130	1,263
Provision for impairment on loans not yet deductible	185	-	130	315
Prior year bad debts not yet deductible	106	-	2	108
Property, plant and equipment	605	-	163	768
Lease expenses not yet deductible	-	230	(135)	95
Intangible assets	87	-	38	125
Accrued income not yet assessable	93	(93)	-	-
Accrued expenses not yet deductible	45	-	22	67
Prepayments	(2)	-	-	(2)
	2,252	137	350	2,739

	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
Lease expenses not yet deductible	-	-	-	-
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

18. Intangible assets

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

	The Group 2020 Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	4,471	118	4,589
Additions	-	923	923
Reclassifications	792	(792)	-
Balance at the end of the financial year	5,263	249	5,512
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(3,735)	-	(3,735)
Amortisation expense	(647)	-	(647)
Balance at the end of the financial year	(4,382)	-	(4,382)
Carrying amount at 30 June 2020	881	249	1,130

	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)	-
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)
Balance at the end of the financial year	(3,735)	-	(3,735)
Carrying amount at 30 June 2019	736	118	854

18. Intangible assets (continued)

	The Bank 2020 Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	4,471	118	4,589
Additions	-	923	923
Reclassifications	792	(792)	-
Balance at the end of the financial year	5,263	249	5,512
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(3,735)	-	(3,735)
Amortisation expense	(647)	-	(647)
Balance at the end of the financial year	(4,382)	-	(4,382)
Carrying amount at 30 June 2020	881	249	1,130

	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)	-
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)
Balance at the end of the financial year	(3,735)	-	(3,735)
Carrying amount at 30 June 2019	736	118	854

[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.

19. Other assets

	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Prepayments	876	767	876	767

20. Borrowings

	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Securities sold under agreements to repurchase	24,995	5,400	24,995	5,400
Secured borrowings (refer to note 31)	322,160	216,533	322,160	216,533
	347,155	221,933	347,155	221,933
Deferred borrowing costs	(177)	(227)	(177)	(227)
Interest payable - borrowings	200	239	200	239
	347,178	221,945	347,178	221,945
Maturity analysis				
At call	-	-	-	-
Not longer than three months	27,671	7,119	27,671	7,119
Longer than three months, not longer than one year	8,340	5,302	8,340	5,302
Longer than one year, not longer than five years	45,664	29,418	45,664	29,418
Longer than five years	265,480	180,094	265,480	180,094
	347,155	221,933	347,155	221,933

21. Lease liabilities

	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Lease liabilities	1,945	-	1,945	-
Maturity analysis				
At call	-	-	-	-
Not longer than three months	365	-	365	-
Longer than three months, not longer than one year	1,004	-	1,004	-
Longer than one year, not longer than five years	577	-	577	-
Longer than five years	-	-	-	-
	1,945	-	1,945	-

22. Reconciliation of liabilities arising from financing activities

	2019 $000	Cash flows $000	Non-cash $000	2020 $000
Securities sold under agreements to repurchase	5,400	19,593	2	24,995
Secured borrowings	216,533	105,627	-	322,160
Lease liabilities	-	(1,456)	3,401	1,945
Deferred borrowing costs	(227)	-	50	(177)
	221,706	123,764	3,453	348,923

23. Deposits

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Members' redeemable preference shares	563	582	563	582
Call deposits	952,369	790,967	952,369	790,967
Term deposits	1,024,662	1,067,172	1,024,662	1,067,172
Electronic certificates of deposit	219,918	222,066	219,918	222,066
	2,197,512	2,080,787	2,197,512	2,080,787
Deferred borrowing costs	(45)	(63)	(45)	(63)
Interest payable - deposits	7,240	11,714	7,240	11,714
	2,204,707	2,092,438	2,204,707	2,092,438
a. Maturity analysis				
At call	952,932	791,549	952,932	791,549
Not longer than three months	563,343	525,473	563,343	525,473
Longer than three months, not longer than one year	640,343	659,763	640,343	659,763
Longer than one year, not longer than five years	40,894	104,002	40,894	104,002
	2,197,512	2,080,787	2,197,512	2,080,787

b. Concentration of deposits

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

24. Trade and other payables

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Trade creditors	17	15	17	15
Other operating payables	368	269	368	269
Accrued expenses	2,162	1,795	2,162	1,795
Unearned commissions	308	488	308	488
Unamortised lease incentive	-	307	-	307
	2,855	2,874	2,855	2,874

Following the adoption of ASSB 16 Leases, lease incentives are no longer included as payables, instead being recognised as part of the measurement of the right of use assets and lease liabilities.

25. Provisions

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Provision for employee entitlements	4,219	3,778	4,219	3,778
Other provisions	20	23	20	23
	4,239	3,801	4,239	3,801
Maturity analysis				
Not longer than one year	3,794	3,369	3,794	3,369
Longer than one year	445	432	445	432
	4,239	3,801	4,239	3,801

26. Share capital

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Balance at the beginning of the financial year	1,012	985	1,012	985
Transfer on redemption of redeemable preference shares	19	27	19	27
Balance at the end of the financial year	1,031	1,012	1,031	1,012

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.

27. Reserves

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
a. General reserve				
Balance at the beginning of the financial year	172,720	163,732	176,654	166,618
AASB 9 transitional adjustment to retained earnings	-	(217)	-	(217)
AASB 16 transitional adjustment to retained earnings	(320)	-	(320)	-
Transfer to the general reserve for credit losses	(437)	(810)	(437)	(810)
Transfer from retained earnings	10,037	10,015	11,656	11,063
Balance at the end of the financial year	182,000	172,720	187,553	176,654

27. 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	
	2020	2019	2020	2019
	$000	$000	$000	$000
Balance at the beginning of the financial year	5,511	4,701	5,511	4,701
Transfer from the general reserve for credit losses	437	810	437	810
Balance at the end of the financial year	5,948	5,511	5,948	5,511

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.

28. Retained earnings

	The Group		The Bank	
	2020	2019	2020	2019
	$000	$000	$000	$000
Profit from continuing operations after income tax	10,056	10,042	11,675	11,090
Transfers to share capital upon redemption of redeemable preference shares	(19)	(27)	(19)	(27)
Transfers to general reserve	(10,037)	(10,015)	(11,656)	(11,063)
Retained earnings at the end of the financial year	-	-	-	-

29. 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	
	2020	2019	2020	2019
	$000	$000	$000	$000
Profit for the year from continuing operations	10,056	10,042	11,675	11,090
Add non-cash items				
Increase in provision on loans and advances	607	214	607	214
Amortisation of deferred borrowing costs	50	69	50	69
Depreciation of property, plant and equipment	1,200	1,306	1,200	1,306
Depreciation of right of use assets	1,114	-	1,114	-
Amortisation of intangible assets	647	436	647	436
Decrease / (increase) in assets				
Interest receivable - Cash and cash equivalents	30	35	30	35
Interest receivable - Investments	519	(117)	519	(117)
Interest receivable - Loans and advances	-	9	-	9
Trade debtors	231	179	231	179
Prepaid expenses	(109)	(161)	(109)	(161)
Other operating receivables	150	(86)	(20,329)	(225)
Current tax assets	314	(314)	314	(314)
Deferred tax assets	(350)	274	(350)	274
Investments	(59,977)	(41,887)	(59,977)	(41,887)
Overdraft balances	1,133	320	1,133	320
Credit card balances	2,357	720	2,357	720
Term loans	(177,914)	(191,253)	(177,914)	(191,253)
Increase / (decrease) in liabilities				
Interest payable - borrowings	(39)	21	(39)	21
Interest payable - deposits	(4,474)	1,873	(4,474)	1,873
Trade creditors	2	15	2	15
Accrued expenses	367	(107)	367	(107)
Unamortised lease incentive	-	(159)	-	(159)
Unearned commissions	(180)	(195)	(180)	(195)
Provision for employee benefits	441	(1,029)	441	(1,029)
Current tax liabilities	1,027	(23)	1,027	(23)
Other provisions	(3)	-	(3)	-
Members redeemable preference shares	(19)	(116)	(19)	(116)
Other operating payables	99	(126)	99	(126)
Call deposits	161,402	72,013	161,402	72,013
Term deposits	(42,510)	20,737	(42,510)	20,737
Electronic certificates of deposit	(2,130)	44,035	(2,130)	44,035
(Deduct) / add cash flows from investing activities included in operating profit				
Gain on disposal of equipment	(2)	(34)	(2)	(34)
Loss on disposal of equipment	1	9	1	9
Net cash used in operating activities	(105,960)	(83,300)	(124,820)	(82,391)

30. Financial commitments

Outstanding loan commitments				
Loans approved but not advanced	56,061	29,803	56,061	29,803
Amounts available for redraw under term loans	213,440	181,447	213,440	181,447
Unused balance of revolving credit facilities	44,682	43,101	44,682	43,101
	314,183	254,351	314,183	254,351

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.

31. Securitisation arrangements

a. **Integris Securitisation Services Pty Limited (Integris)**
In past financial years, the Group had an arrangement with Integris, a wholly owned subsidiary of Cuscal, whereby it acted as an agent to promote and complete loans on its behalf. During the 2014 financial year the scheme was closed to new loan originations. The Group continues to manage the loans portfolio on behalf of Integris, for which it receives a fee. The Group bears no credit risk exposure in respect of these loans and in accordance with its accounting policies does not recognise these loans on its statement of financial position. The securities issued by Integris do not represent liabilities of the Group and the Group does not guarantee the payment of interest or principal on these securities. The Group is not obliged to support any losses by investors in the trust and does not intend to provide such support. The value of loans originated on behalf of Integris during the reporting period is nil (2019: Nil). The balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $10,244 thousand (2019: $12,656 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 $492.9 million of eligible mortgage receivables transferred to the DBL Trust Repo Series No. 1 (2019: $nil). The mortgage receivables transferred to the Repo Series No. 1 have not been derecognised, as the Bank retains substantially all of the risk and rewards of ownership of the transferred assets.

Series 2015-1PP was established in December 2015. The Bank transferred $150.0 million of eligible mortgages to Series 2015-1PP, with Senior A class RMBS issued to a third party, and subordinate B class RMBS issued to the Bank.

ANZ Warehouse Series was established in March 2018. During the financial year, $169.9 million of eligible mortgage receivables were transferred to the ANZ Warehouse (2019: $110.5 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 20.

32. Remuneration of auditor

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Deloitte Touche Tohmatsu				
Audit or review of the financial statements	106,700	92,950	106,700	92,950
Regulatory and compliance engagements	114,860	87,450	114,860	87,450
	221,560	180,400	221,560	180,400

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 (Audit and Related Matters) and APS 910 (Financial Claims Scheme). The amounts disclosed in this note are inclusive of GST.

33. 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:

	2020	**2019**
	$	**$**
Non Executive Directors' remuneration:		
Short-term employee benefits	665,290	665,617
Executive management remuneration:		
Short-term employee benefits	3,482,869	3,290,090
Other long-term benefits	53,535	91,965
	3,536,404	3,382,055
Total key management personnel remuneration:		
Short-term employee benefits	4,148,159	3,955,707
Other long-term benefits	53,535	91,965
	4,201,694	4,047,672

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.

34. Financial instruments

a. Categories of financial instruments	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Financial assets				
Cash and cash equivalents	98,279	81,539	65,429	67,549
Financial assets at amortised cost:				
Investments	330,222	270,764	330,222	270,764
Trade and other receivables	361	742	38,764	18,666
Loans and advances	2,312,050	2,138,233	2,312,050	2,138,233
Financial assets at FVTOCI:				
Equity investments	1,639	1,639	1,639	1,639
	2,742,551	2,492,917	2,748,104	2,496,851
Financial liabilities				
At amortised cost:				
Borrowings	347,178	221,945	347,178	221,945
Deposits	2,204,707	2,092,438	2,204,707	2,092,438
Trade and other payables	2,855	2,874	2,855	2,874
	2,554,740	2,317,257	2,554,740	2,317,257

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.

34. Financial instruments (continued)

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

	The Group 2020 $000	The Group 2019 $000	The Bank 2020 $000	The Bank 2019 $000
Profit after tax	5,156	5,556	4,925	5,458
Equity	5,156	5,556	4,925	5,458

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:

34. Financial instruments (continued)

The Group

2020	Current and not impaired				Past due	
		Rated (Long term, Short term) [5]			and / or	
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3	impaired	Total
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	98,279	-	-	-	98,279
Financial assets at amortised cost:						
Investments	29,327	86,223	84,992	129,680	-	330,222
Trade and other receivables	361	-	-	-	-	361
Loans and advances	2,310,286	-	-	-	1,764	2,312,050
Financial assets at FVTOCI:						
Equity investments	-	1,639	-	-	-	1,639
	2,339,974	186,141	84,992	129,680	1,764	2,742,551

The Group

2019	Current and not impaired				Past due	
		Rated (Long term, Short term) [5]			and / or	
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3	impaired	Total
	$000	$000	$000	$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

34. Financial instruments (continued)

The Bank

2020	Current and not impaired				Past due	
		Rated (Long term, Short term) [5]			and / or	
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3	impaired	Total
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	65,429	-	-	-	65,429
Financial assets at amortised cost:						
Investments	29,327	86,223	84,992	129,680	-	330,222
Trade and other receivables	38,764	-	-	-	-	38,764
Loans and advances	2,310,286	-	-	-	1,764	2,312,050
Financial assets at FVTOCI:						
Equity investments	-	1,639	-	-	-	1,639
	2,378,377	153,291	84,992	129,680	1,764	2,748,104

The Bank

2019	Current and not impaired				Past due	
		Rated (Long term, Short term) [5]			and / or	
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3	impaired	Total
	$000	$000	$000	$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

[5] Ratings grades refer to Standard and Poor's (S&P) rating levels for long term and short term issuer ratings respectively. Where a counterparty is rated by an alternative ratings agency, its rating has been classified in line with the equivalent S&P rating.

34. Financial instruments (continued)

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

The Group 2020	Past due and not impaired 30 - 59 days $000	60 - 89 days $000	≥ 90 days $000	Impaired < 90 days $000	≥ 90 days $000	Total $000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	36	447	1,028	23	230	1,764
	36	447	1,028	23	230	1,764

The Group 2019	Past due and not impaired 30 - 59 days $000	60 - 89 days $000	≥ 90 days $000	Impaired < 90 days $000	≥ 90 days $000	Total $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 2020	Past due and not impaired 30 - 59 days $000	60 - 89 days $000	≥ 90 days $000	Impaired < 90 days $000	≥ 90 days $000	Total $000
Financial assets						
Loans and receivables at amortised cost:						
Loans and advances	36	447	1,028	23	230	1,764
	36	447	1,028	23	230	1,764

The Bank 2019	Past due and not impaired 30 - 59 days $000	60 - 89 days $000	≥ 90 days $000	Impaired < 90 days $000	≥ 90 days $000	Total $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

In response to the COVID-19 pandemic, the Bank has offered assistance to those members that have been financially impacted, through a number of means including converting loans to interest-only payments, and offering repayment deferrals. In offering this assistance, the Bank has taken an individual, borrower-specific approach to each request for financial assistance, including a hardship credit assessment, in order to gain a thorough understanding of the member's situation, and to offer assistance which is appropriate to each member's circumstances. To monitor the extent of these arrangements, each loan granted financial assistance is noted as such, with details of the specific arrangement fully documented, including the date where the situation will be further reviewed with the member. Many of these loans are not disclosed above as past due or impaired, but are summarised below:

34. Financial instruments (continued)

	Number of loans	$'000	% loans and advances	loss allowance $'000	weighted average LVR	% covered by LMI
Hardship arrangements granted	97	23,173	1.0%	484	75.0%	
Of which:						
Disclosed above as past due or impaired	6	1,144				
Loans secured by residential property	72	22,790	1.0%	314	74.6%	38.6%
Other loans	25	382	-	170	95.4%	-
	97	23,172		484		
Loans secured by residential property						
- Interest only payments for 3 months	27	8,147	0.4%	73		
- Repayments deferred for 3 months	45	14,643	0.6%	241		
Other loans						
- Interest only payments for 3 months	4	34	-	12		
- Repayments deferred for 3 months	21	348	-	158		
	97	23,172		484		

The Group has adopted a conservative approach and, for all loans granted COVID-19 related hardship, has taken the position that this constitutes objective evidence of impairment. All such loans are classed as stage 3 in the ECL model, and are assessed on an individual basis with reference to the specific circumstances of that financial asset, such as the total exposure the Group has to the loan, as well as collateral values and the existence of lenders mortgage insurance. A probability weighted assessment of a range of possible economic scenarios was undertaken, identifying a best, base and worst case scenario, with the impact on collateral values weighted according to the likelihood of each scenario. The result of this assessment resulted in an overall loss allowance of $484 thousand for loans granted hardship assistance.

It is important to note that the assumptions made in these assessments are subject to judgement. The effect on profit and equity if the probability of the base case scenario was 100% is set out below.

	2020 Group $000	2020 Bank $000
Increase in profit and equity	143	143

34. Financial instruments (continued)

e. Liquidity risk

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

The Group manages liquidity risk primarily through adherence to Board policies that require the Group to maintain a minimum of 11.5% 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 2020 the Minimum Liquid Holdings ratio was 15.2% (2019: 12.6%).

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

	The Group		The Bank	
	2020 $000	2019 $000	2020 $000	2019 $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:

	2020 $000	2019 $000
Aaa(sf) rated RMBS	689,784	301,389

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.

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

2020

Financial liabilities	At call $000	Not at call, not longer than three months $000	Longer than three months, not longer than one year $000	Longer than one year, not longer than five years $000	Longer than five years $000	Total $000
At amortised cost:						
Borrowings	-	3,701	11,362	85,819	302,973	403,855
Deposits	952,932	567,997	652,071	42,199	-	2,215,199
Trade and other payables	-	2,855	-	-	-	2,855
	952,932	574,553	663,433	128,018	302,973	2,621,909

34. Financial instruments (continued)

The Group

2019

Financial liabilities	At call $000	Not at call, not longer than three months $000	Longer than three months, not longer than one year $000	Longer than one year, not longer than five years $000	Longer than five years $000	Total $000
At amortised cost:						
Borrowings	-	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

2020

Financial liabilities	At call $000	Not at call, not longer than three months $000	Longer than three months, not longer than one year $000	Longer than one year, not longer than five years $000	Longer than five years $000	Total $000
At amortised cost:						
Borrowings	-	3,701	11,362	85,819	302,973	403,855
Deposits	952,932	567,997	652,071	42,199	-	2,215,199
Trade and other payables	-	2,855	-	-	-	2,855
	952,932	574,553	663,433	128,018	302,973	2,621,909

The Bank

2019

Financial liabilities	At call $000	Not at call, not longer than three months $000	Longer than three months, not longer than one year $000	Longer than one year, not longer than five years $000	Longer than five years $000	Total $000
At amortised cost:						
Borrowings	-	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

34. Financial instruments (continued)

Net fair values

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

	The Group			
	Carrying amount		Net fair value	
	2020	2019	2020	2019
	$000	$000	$000	$000
Financial assets				
Cash and cash equivalents	98,279	81,539	98,279	81,539
Financial assets at amortised cost:				
Investments	330,222	270,764	330,736	271,402
Trade and other receivables	361	742	361	742
Loans and advances	2,312,050	2,138,233	2,316,020	2,138,899
Financial assets at FVTOCI:				
Equity investments [6]	1,639	1,639	1,639	1,639
	2,742,551	2,492,917	2,747,035	2,494,221
Financial liabilities				
At amortised cost:				
Borrowings	347,178	221,945	347,178	222,221
Deposits	2,204,707	2,092,438	2,207,870	2,095,528
Trade and other payables	2,855	2,874	2,855	2,874
	2,554,740	2,317,257	2,557,903	2,320,623

	The Bank			
	Carrying amount		Net fair value	
	2020	2019	2020	2019
	$000	$000	$000	$000
Financial assets				
Cash and cash equivalents	65,429	67,549	65,429	67,549
Financial assets at amortised cost:				
Investments	330,222	270,764	330,736	271,402
Trade and other receivables	38,764	18,666	38,764	18,666
Loans and advances	2,312,050	2,138,233	2,316,020	2,138,899
Financial assets at FVTOCI:				
Equity investments [6]	1,639	1,639	1,639	1,639
	2,748,104	2,496,851	2,752,588	2,498,155
Financial liabilities				
At amortised cost:				
Borrowings	347,178	221,945	347,178	222,221
Deposits	2,204,707	2,092,438	2,207,870	2,095,528
Trade and other payables	2,855	2,874	2,855	2,874
	2,554,740	2,317,257	2,557,903	2,320,623

[6] Equity investments represents shares in Cuscal Limited (refer to note 11). These shares are carried at cost as this represents the best estimate of fair value.

34. Financial instruments (continued)

	The Group			
	Fair value hierarchy as at 30 June 20			
	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000
Financial assets				
Cash and cash equivalents	98,279	-	-	98,279
Financial assets at amortised cost:				
Investments	-	330,736	-	330,736
Trade and other receivables	-	-	361	361
Loans and advances	-	-	2,316,020	2,316,020
Financial assets at FVTOCI:				
Equity investments	-	-	1,639	1,639
	98,279	330,736	2,318,020	2,747,035
Financial liabilities				
At amortised cost:				
Borrowings	-	-	347,178	347,178
Deposits	-	-	2,207,870	2,207,870
Trade and other payables	-	-	2,855	2,855
	-	-	2,557,903	2,557,903

	The Group			
	Fair value hierarchy as at 30 June 19			
	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000
Financial assets				
Cash on hand and on deposit	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 applies discounted cash flow as the valuation technique for level 3 financial instruments, with the risk-adjusted discount rate as the key unobservable input.

34. Financial instruments (continued)

	The Bank Fair value hierarchy as at 30 June 20			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	65,429	-	-	65,429
Financial assets at amortised cost:				
Investments	-	330,736	-	330,736
Trade and other receivables	-	-	38,764	38,764
Loans and advances	-	-	2,316,020	2,316,020
Financial assets at FVTOCI:				
Equity investments	-	-	1,639	1,639
	65,429	330,736	2,356,423	2,752,588
Financial liabilities				
At amortised cost:				
Borrowings	-	-	347,178	347,178
Deposits	-	-	2,207,870	2,207,870
Trade and other payables	-	-	2,855	2,855
	-	-	2,557,903	2,557,903

	The Bank Fair value hierarchy as at 30 June 19			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	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

35. Operational risk

Operational risk refers to the risk of direct or indirect loss, resulting from inadequate or failed internal processes and systems, or from external events. Wherever possible, the Group incorporates operational risk controls into its processes, in a manner that is appropriate to the activities being conducted. Examples of these controls are set out below:

- Clearly communicated policies and procedures;
- the integration of all relevant controls within these policies and procedures;
- regular monitoring of risk thresholds and limits, with reference to the Bank's risk appetite statement;
- ensuring adherence to all relevant laws and regulatory requirements;
- safeguarding the use of, and access to, the Bank's assets and records;
- maintaining segregation of duties by way of role separation and segregating systems access with the use of passwords and user-based authority levels, to protect the Bank against internal fraud, and;
- the promotion of effective IT security, including regular employee education, and restricting systems access through the use of passwords and other security measures.

36. Capital

Capital management

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

	The Group		The Bank	
	2020 %	2019 %	2020 %	2019 %
Common Equity Tier 1 ratio	13.4	13.9	13.4	13.9
Total Tier 1 Capital ratio	13.4	13.9	13.4	13.9
Tier 2 Capital ratio	0.5	0.4	0.5	0.4
Total Capital ratio	13.9	14.3	13.9	14.3

As part of its risk management framework, the Group has developed an Internal Capital Adequacy Assessment Process to monitor and manage capital in a manner that is consistent with the assessed risk exposure and forecast levels of business activity. Capital is managed in a range comfortably above the 8% minimum required by APRA and incorporates an annual assessment of appropriate risk exposures for operational, market and credit risks.

37. Subsequent events

The outbreak of the COVID-19 coronavirus, and the subsequent quarantine measures imposed, have caused disruption to businesses and economic activity. As the Group's core operation is the provision of banking services to ADF personnel, it has not been impacted significantly by COVID-19.

Since the end of the financial year, the Bank has continued to offer assistance to those members that have been financially impacted by the COVID-19 pandemic, and has conducted ongoing dialogue with those members that have been granted financial assistance. Following the end of the financial year, and at the date these accounts are issued, 69 loans representing a total of $13.8 million have exited hardship arrangements and are now receiving full or partial payments, and 31 loans totalling $10.5 million are currently in hardship arrangements. This represents an improvement since the end of the financial year, and the directors do not believe that COVID-19, or any other matters or circumstances arising since the end of the financial year, will significantly affect the operations, results of those operations, or the state of affairs, of the Group.

38. Approval of financial statements

The financial statements were approved by the Board of directors and authorised for issue on 5 October 2020.

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 2020.

F Raymond
Chair of the Board
5 October 2020

A Myers
Chair of the Audit Committee
5 October 2020

Independent auditor's report

Deloitte Touche Tohmatsu
ABN 74 490 121 060
477 Collins Street
Melbourne VIC 3000

Tel: +61 3 9671 7000
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Independent Auditor's Report to the Members of Defence Bank Limited

Opinion

We have audited the financial reports of Defence Bank Limited (the "Company") and its subsidiaries (the "Group") which comprise the Group and the Company's statements of financial position as at 30 June 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements 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 reports of the Group and the Company are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group and the Company's financial position as at 30 June 2020 and of their 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 Reports* 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial reports 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 Company (the "directors"), 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 and Company's annual report for the year ended 30 June 2020, but does not include the financial reports and our auditor's report thereon.

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

In connection with our audit of the financial reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports 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 Reports

Deloitte.

The directors are responsible for the preparation of the financial reports that give 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 reports that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors are responsible for assessing the ability of the Group and the Company to continue as going concerns, 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 the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Reports

Our objectives are to obtain reasonable assurance about whether the financial reports as a whole are 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 the financial reports.

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 reports, 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 or the Company'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 or the Company'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 reports 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 or the Company to cease to continue as going concerns.

- Evaluate the overall presentation, structure and content of the financial reports, including the disclosures, and whether the financial reports represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent auditor's report

Deloitte.

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, 5 October 2020

Auditor's independence declaration

Deloitte.

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

5 October 2020

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 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

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 MELBOURNE VIC 3000
Corporate rating	Standard and Poor's BBB / Stable / A-2
Mail address	PO Box 14537 MELBOURNE VIC 8001
Telephone numbers	(03) 8624 5888 1800 033 139
Fax number	(03) 8624 5892
Email	info@defencebank.com.au
Website	www.defencebank.com.au
Interstate trading	Defence Bank is registered to trade in each State and Territory of Australia.

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