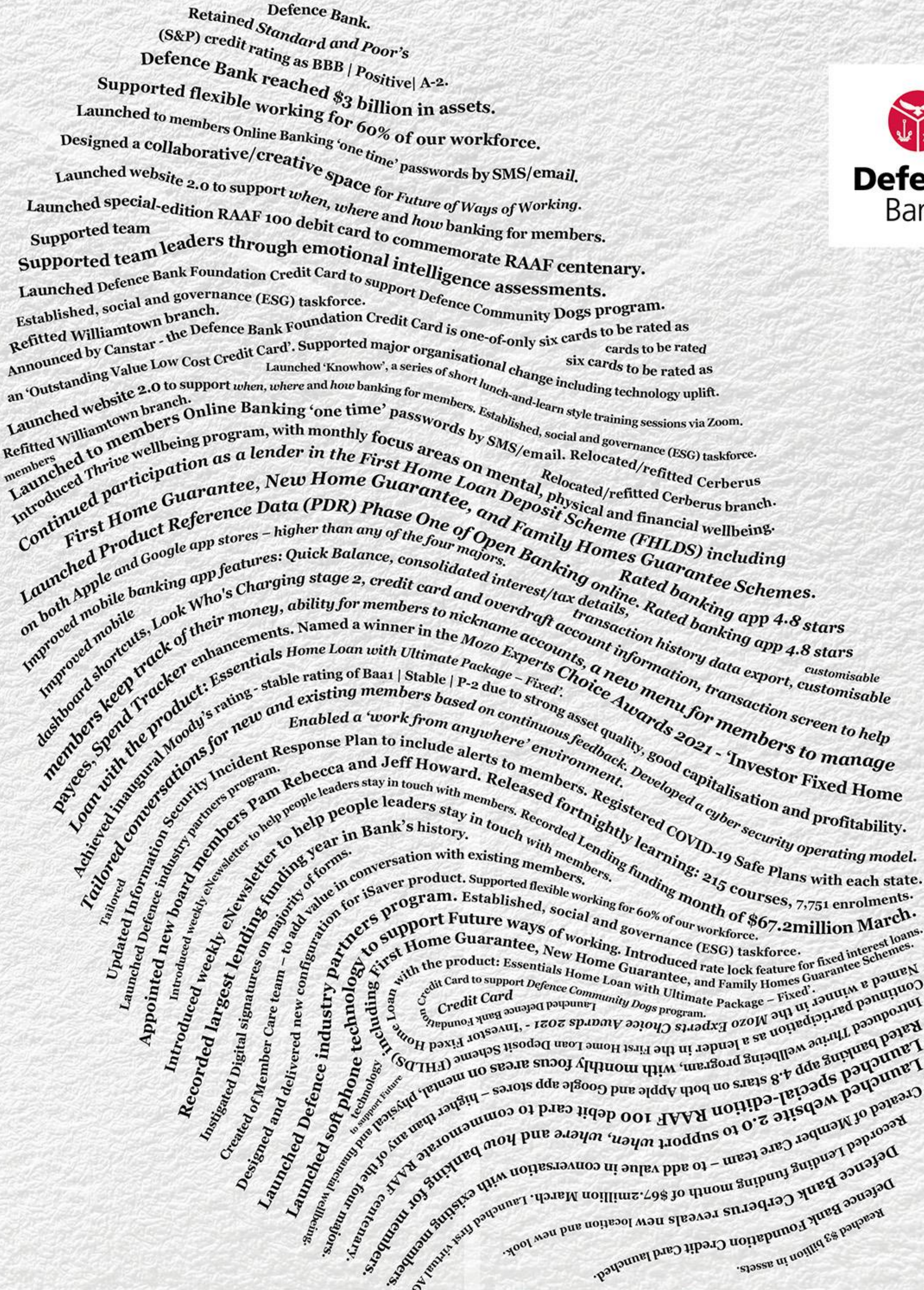
Defence Bank



Annual Financial Report.

2020-2021.

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 2021. 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 23 November 2020.
Mr Bruce Andrew MURPHY	BSc, MCom, PGD, CAIA, 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), FAICD *(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.
Group Captain Jeffrey HOWARD	OAM, FIEAust, CPEng, GAICD, BE, MCom, MA, psc(j)	Initially elected to the Board on 23 November 2020.
Lieutenant Colonel Craig Duncan MADDEN	BA, MMgt (Defence Studies) , GradCert Applied Engr Practice, FAICD, psc	Initially elected to the Board on 28 November 2005. Retired from the Board on 23 November 2020.
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
Ms Pam REBECCA	BBus(Accy), MBA, GAICD	Initially elected to the Board on 23 November 2020.

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.
Ben Beenie	MBA, FGIA *(Company Secretary)*	Appointed 23 November 2020.
Manipos SIMOS	B. Bus. Accounting, Grad. Dip. Banking and Finance, GAICD *(Chief Risk Officer)*	Appointed 16 September 2016. Resigned 23 November 2020.

Directors' report

Directors' meetings

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

Directors	Board		Committees							
			Audit		Risk and Compliance		Nominations		Governance and Rem.	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
F Raymond	9	9	3	3	7	7	-	-	5	5
B Murphy	9	8	-	-	7	6	1	1	5	5
A Myers	9	9	3	3	7	7	-	-	3	3
J Fitzpatrick	9	9	3	2	7	6	-	-	3	3
J Howard	5	5	2	2	-	-	-	-	-	-
C Madden	4	4	1	1	-	-	-	-	-	-
I Murray	9	9	-	-	3	3	-	-	2	2
P Rebecca	5	5	-	-	4	4	-	-	-	-

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 $13,924 thousand (2020: $10,056 thousand) after providing $6,009 thousand (2020: $4,266 thousand) for income tax expense.

b. Deposit and lending growth

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

	2021 $000	2020 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	3,022,808	2,750,930	271,878	9.9
Total deposits	2,330,830	2,204,707	126,123	5.7
Total equity	202,903	188,979	13,924	7.4
Net loans and advances	2,496,066	2,312,050	184,016	8.0
Securitised housing loans (off balance sheet)	7,539	10,244	(2,705)	(26.4)
Total loans and advances (on and off balance sheet)	2,503,605	2,322,294	181,311	7.8

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. To reinforce its ongoing commitment to the branch network, the Bank has reinvested in the Williamtown and Cerberus branches, with refurbishments completed during the financial year.

d. Partnerships

The Bank has continued its strategy of partnering with like minded organisations to support its members and has launched the Defence Industry Partners program, with partners to date including Aero PM, Agilant, KBR, Navy Health and Raytheon Australia.

e. Product development

The Bank continues to improve products and services for members. The Bank remained a panel lender under the Commonwealth Governments First Home Loan Deposit Scheme, assisting with new initiatives including the New Home Guarantee and Family Homes Guarantee schemes. This has assisted a number of members acquire their first home, with 118 homes funded to date. Improvements were made to the investor home loan offering, with the addition of investor eligibility in Premier and Premier Low Rate Home Loan and, in March 2021, Defence Bank was named a winner in the Mozo Experts Choice Awards 2021 in the category of Investor Fixed Home Loan with the product Essentials Home Loan with Ultimate Package – Fixed. The year also saw the introduction of the rate lock feature for fixed interest loans. The Defence Bank Foundation credit card was launched, to provide support to the Defence Community Dogs program, and in April 2021 Canstar announced it as one of only six cards to be rated as an Outstanding Value Low Cost Credit Card. Also, in June 2021 the Bank launched a special edition visa debit card to commemorate the RAAF Centenary.

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. Central to this is a continued enhancement cycle on the Defence Bank Banking App, resulting in a rating of 4.8/5 stars by our Members in both the Apple App Store and Google Play. Online banking also benefited from this program, with new initiatives including simplification of the login process.

h. Community involvement
The Bank has continued to support the Defence Community, although at a 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 10th Force Support Battalion training dinner. The Bank also supports the Defence Community through donations to organisations such as the Wagga Wagga Women's Health Centre, Network Tindal and Military Wives Choir, and is a proud supporter of the defence spouse community through the Military Wife podcast. 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 this survey was outsourced to Insync, an independent research agency. Staff engagement was measured at 73%, which compares well to peer financial services organisations.

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. During the year, the peaks for these measures were +52 and 86% respectively, which represented all time highs. For the first time this year, the Bank utilised the ENP Trust Framework. This returned an average score of +59 for the year, which compares well to peer financial services organisations.

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 has continued 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. 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
Since the end of the financial year, the directors have not become aware of any matters or circumstances that may significantly affect the operations, results of those operations, or the state of affairs, of the Group.

Directors' report

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 2020, 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 61.

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
11 October 2021

A Myers
Chair of the Audit Committee
11 October 2021

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2021

		The Group		The Bank	
		2021	**2020**	**2021**	**2020**
	Notes	**$000**	**$000**	**$000**	**$000**
Income					
Interest income	5	74,366	80,988	74,341	80,889
Interest expense	5	(17,946)	(33,083)	(17,946)	(33,083)
Net interest income		56,420	47,905	56,395	47,806
Other income	6	7,054	7,928	9,135	9,434
		63,474	55,833	65,530	57,240
Expenses					
Personnel expenses	6	22,274	21,351	22,274	21,351
Depreciation and amortisation expense	6	2,751	2,961	2,751	2,961
(Decrease)/increase in provision on loans and advances	14e	(609)	607	(609)	607
Other expenses	6	19,125	16,592	18,856	16,380
		43,541	41,511	43,272	41,299
Profit before income tax		19,933	14,322	22,258	15,941
Income tax expense	7	6,009	4,266	6,009	4,266
Profit for the year from continuing operations		13,924	10,056	16,249	11,675
Other comprehensive income		-	-	-	-
Total comprehensive income		13,924	10,056	16,249	11,675

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2021

		The Group		The Bank	
		2021	**2020**	**2021**	**2020**
	Notes	**$000**	**$000**	**$000**	**$000**
Assets					
Cash and cash equivalents	9	117,596	98,279	85,450	65,429
Investments	10	396,366	330,222	396,366	330,222
Equity investments	11	1,639	1,639	1,639	1,639
Trade and other receivables	13	527	361	40,551	38,764
Loans and advances	14	2,496,066	2,312,050	2,496,066	2,312,050
Property, plant and equipment	15	3,456	2,109	3,456	2,109
Right of use assets	16	2,765	1,525	2,765	1,525
Deferred tax assets	17	2,404	2,739	2,404	2,739
Intangible assets	18	756	1,130	756	1,130
Other assets	19	1,233	876	1,233	876
		3,022,808	2,750,930	3,030,686	2,756,483
Liabilities					
Borrowings	20	475,879	347,178	475,879	347,178
Lease liabilities	21	2,787	1,945	2,787	1,945
Deposits	23	2,330,830	2,204,707	2,330,830	2,204,707
Trade and other payables	24	4,617	2,855	4,617	2,855
Current tax liabilities		714	1,027	714	1,027
Provisions	25	5,078	4,239	5,078	4,239
		2,819,905	2,561,951	2,819,905	2,561,951
Net assets		202,903	188,979	210,781	194,532
Equity					
Share capital	26	1,100	1,031	1,100	1,031
Reserves	27	201,803	187,948	209,681	193,501
Retained earnings	28	-	-	-	-
		202,903	188,979	210,781	194,532

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the financial year ended 30 June 2021

	The Group				
	2021				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2020	1,031	5,948	182,000	-	188,979
Transfer on redemption of redeemable member shares	69	-	-	(69)	-
Transfer to general reserve for credit losses	-	78	(78)	-	-
Profit for the financial year	-	-	-	13,924	13,924
Transfer to general reserve	-	-	13,855	(13,855)	-
Balance at 30 June 2021	1,100	6,026	195,777	-	202,903

	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 9 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

Consolidated statement of changes in equity

for the financial year ended 30 June 2021

	The Bank 2021				
	Share capital $000	**General reserve for credit losses $000**	**General reserve $000**	**Retained earnings $000**	**Total equity $000**
Balance at 1 July 2020	1,031	5,948	187,553	-	194,532
Transfer on redemption of redeemable member shares	69	-	-	(69)	-
Transfer to general reserve for credit losses	-	78	(78)	-	-
Profit for the financial year	-	-	-	16,249	16,249
Transfer to general reserve	-	-	16,180	(16,180)	-
Balance at 30 June 2021	1,100	6,026	203,655	-	210,781

	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 9 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 accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the financial year ended 30 June 2021

	Notes	The Group 2021 $000	The Group 2020 $000	The Bank 2021 $000	The Bank 2020 $000
Cash flows from operating activities					
Interest received		74,661	81,537	74,636	81,438
Fees and commissions received		6,551	7,551	6,551	7,551
Other income received		476	627	2,557	2,133
Dividends received		41	180	41	180
Recoveries on loans previously written off		148	112	148	112
Goods and services tax refunded		934	631	934	631
Interest paid		(22,078)	(37,546)	(22,078)	(37,546)
Payments to suppliers and employees		(40,811)	(38,368)	(40,542)	(38,156)
Tax collected on retirement savings accounts		200	510	200	510
Income tax paid		(6,187)	(3,785)	(6,187)	(3,785)
Cash flows from operating activities before changes in operating assets and liabilities		13,935	11,449	16,260	13,068
Net increase in investments		(66,436)	(59,977)	(66,436)	(59,977)
Net increase in loans and advances		(183,407)	(174,424)	(183,407)	(174,424)
(Increase)/decrease in other operating receivables		(38)	150	(1,659)	(20,329)
Net increase in deposits		130,519	116,743	130,519	116,743
(Decrease)/increase in other operating payables		(5)	99	(5)	99
Net cash used in operating activities	29	(105,432)	(105,960)	(104,728)	(124,820)
Cash flows from investing activities					
Proceeds on disposal of property, plant and equipment		-	8	-	8
Purchases of property, plant and equipment	15	(1,974)	(119)	(1,974)	(119)
Purchases of intangible assets	18	(306)	(923)	(306)	(923)
Net cash used in investing activities		(2,280)	(1,034)	(2,280)	(1,034)
Cash flows from financing activities					
Net increase in borrowings	22	128,437	125,220	128,437	125,220
Net decrease in lease liabilities	22	(1,405)	(1,456)	(1,405)	(1,456)
Net cash flow from financing activities		127,032	123,764	127,032	123,764
Net increase/(decrease) in cash and cash equivalents		19,320	16,770	20,024	(2,090)
Cash and cash equivalents at the beginning of the financial year		98,267	81,497	65,417	67,507
Cash and cash equivalents at the end of the financial year	9	117,587	98,267	85,441	65,417

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2021

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.
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 10, 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 2020, and therefore relevant for the current financial year.

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
The Group has adopted these amendments for the first time in the current financial year, which remove inconsistencies in the way 'material' is defined in the Conceptual Framework for Financial Reporting, AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* .

The amendments make the definition of 'material' easier to understand and are not intended to alter the underlying concept of materiality. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition, alongside the concepts of 'omitting' and 'misstating' information. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence', with 'users' clarified as being the primary users of general purpose financial statements referred to in the Conceptual Framework.

AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in AASB Standards and other pronouncements for the first time in the current financial year. The amendments include consequential amendments to affected Standards so that they refer to the Conceptual Framework issued by the AASB In June 2019. The amended Standards include AASB 3 *Business Combinations* , AASB 101 *Presentation of Financial Statements* , AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* , AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* , AASB 138 *Intangible Assets* and AASB Interpretation 132 *Intangible Assets – Web Site Costs* .

Notes to the financial statements

for the financial year ended 30 June 2021

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

b. Standards and Interpretations in issue not yet adopted

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

Annual Improvements to IFRS Standards:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2.* This amends AASB 9 *Financial Instruments*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 7 *Financial Instruments: Disclosures* and AASB 16 *Leases* to address issues that may affect financial reporting during interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of an interest rate benchmark with an alternative benchmark rate.	1 January 2021	30 June 2022
AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments.* The amended Standards include AASB 1 *First-time Adoption of International Financial Reporting Standards,* AASB 9 *Financial Instruments,* AASB 16 *Leases,* AASB 3 *Business Combinations,* AASB 137 *Provisions, Contingent Liabilities and Contingent Assets,* and AASB 116 *Property, Plant and Equipment.*	1 January 2022	30 June 2023
AASB 17 - "*Insurance Contracts*" and AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts*	1 January 2023	30 June 2024
AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current,* and AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*	1 January 2023	30 June 2024

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 as issued by the International Accounting Standards Board. Consequently, this financial report has been prepared in accordance with, and complies with, IFRS as issued by the IASB.

The financial statements were authorised for issue by the directors on 11 October 2021.

3. Significant accounting policies (continued)

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 in line with its performance obligations in the contract with the customer or member.

Interest income from a financial asset is recognised using its effective interest rate, 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 either at a point in time, or over time, in line with when the 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 lessee

The Group assesses whether a contract is, or contains, a lease at inception of the contract, based on the concept of control. The Group distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the Group, with control considered to exist if the Group 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 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 short term and low value 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. These expenses are presented within "Other expenses" in the consolidated statement of profit or loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by 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).

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.

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.

<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.

Notes to the financial statements

for the financial year ended 30 June 2021

3. Significant accounting policies (continued)

g. Taxation (continued)

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:

Leasehold improvements	3 years - 10 years
Plant and equipment	2 years - 10 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.

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

3. Significant accounting policies (continued)

i. Intangible assets (continued)

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.

During the year, IFRIC provided additional guidance with regards to capitalisation of certain costs within intangible assets, specifically in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service ("SaaS") arrangements.. This did not result in any change in accounting policy for the Group, and no adjustments to previously reporting financial information were required as a result.

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 or liability, 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 liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents
Cash comprises notes and coins on hand and unrestricted balances held with other financial institutions. Cash equivalents are highly liquid investments which are subject to an insignificant risk of changes in their fair value, and are carried at amortised cost.

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 expected credit losses.

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 expected credit losses.

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 the best estimate of fair value, as disclosed in note 34e. 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 expected credit losses 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. Additionally, overlays to represent model risk, and to take into consideration the uncertainty caused by COVID19 have been included in the expected credit loss recognised.

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. Objective evidence of impairment is generally taken to be 90 days past due, or other indication of financial difficulty.

12-month expected credit losses (ECL) are recognised in stage 1, while lifetime ECL 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 expected credit loss decreases and the decrease can be related objectively to an event occurring after the expected credit loss was recognised, the previously recognised expected credit loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the expected credit loss is reversed does not exceed what the amortised cost would have been had the expected credit loss not been recognised.

Expected credit losses for financial assets such as cash, investments and trade and other receivables have been determined by management to be immaterial.

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

Financial liabilities
Financial liabilities, including borrowings, deposits and trade and other payables, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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.

Secured borrowings from the RBA
Secured borrowings from the RBA represent amounts drawn down under the RBA Term Funding Facility. RMBS issued by DBL Funding Trust No. 1 Repo Series No. 1 meet the RBA eligibility criteria and have been pledged as collateral by way of repurchase agreements with the RBA. These borrowings are carried at amortised cost.

Floating rate subordinated notes
Floating rate subordinated notes are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. Interest is recognised using the effective interest rate method.

Deposits
Deposits are brought to account at the aggregate amount owing to depositors. Interest on deposits is brought to account on an effective interest rate basis in accordance with the interest rate terms and conditions applicable to each account.

3. Significant accounting policies (continued)

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.

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 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.

In the case of all series of DBL Funding Trust No.1, the Group, and specifically the Bank as residual income unitholder, holds a first loss position, and therefore retains substantially all of the risks and rewards of ownership of the transferred assets.

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.

Investments at amortised cost
The directors have reviewed the Group's investments 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 investments at amortised cost is $396,366 thousand (2020: $330,222 thousand). Details of these assets are included in note 10.

b. Critical sources of estimation uncertainty

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

Provision for impairment of loans and advances
Expected credit losses 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 ECL. (Refer to note 34 for further detail).

Notes to the financial statements

for the financial year ended 30 June 2021

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		
	2021		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	106,902	171	0.16
Investments	338,921	2,154	0.64
Loans and advances	2,408,944	72,041	2.99
	2,854,767	74,366	2.60
Financial liabilities			
Borrowings	416,891	4,258	1.02
Deposits	2,247,635	13,663	0.61
	2,664,526	17,921	0.67
Lease liabilities	1,202	25	2.08
Net interest income		56,420	

	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	

5. Interest income and interest expense (continued)

	The Bank 2021		
	Average balance $000	Interest amount $000	Average interest rate %
Financial assets			
Cash and cash equivalents	70,096	146	0.21
Investments	338,921	2,154	0.64
Loans and advances	2,408,944	72,041	2.99
	2,817,961	74,341	2.64
Financial liabilities			
Borrowings	416,891	4,258	1.02
Deposits	2,247,635	13,663	0.61
	2,664,526	17,921	0.67
Lease liabilities	1,202	25	2.08
	2,665,728	17,946	0.67
Net interest income		56,395	

	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
	2,426,951	33,083	1.36
Net interest income		47,806	

Notes to the financial statements

for the financial year ended 30 June 2021

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	
	2021 $000	2020 $000	2021 $000	2020 $000
Other income				
Dividends	41	180	41	180
Fee income from loan and deposit accounts	452	539	452	539
Other transaction fee income	828	968	828	968
Other service fee income	1,755	1,941	1,755	1,941
Other fee income	4	18	4	18
Insurance commissions	1,972	1,879	1,972	1,879
Other commissions	1,378	1,662	1,378	1,662
Gain on disposal of property, plant and equipment	-	2	-	2
Credit losses recovered	148	112	148	112
Other income	476	627	2,557	2,133
	7,054	7,928	9,135	9,434
Personnel expenses				
Employee benefits	19,562	18,773	19,562	18,773
Provision for employee benefits	527	372	527	372
Termination benefits	531	111	531	111
Other personnel expenses	1,654	2,095	1,654	2,095
	22,274	21,351	22,274	21,351
Depreciation and amortisation expense				
Plant and equipment	189	237	189	237
Buildings and leasehold improvements	875	963	875	963
Computer software	680	647	680	647
Right of use assets	1,007	1,114	1,007	1,114
	2,751	2,961	2,751	2,961
Other expenses				
Loss on disposal of property, plant and equipment	72	1	72	1
Occupancy expenses	1,282	644	1,282	644
Information technology expenses	5,585	4,493	5,585	4,493
External financial transaction processing fees and charges	3,586	3,183	3,586	3,183
Telephone expenses	439	478	439	478
Administration expenses	2,392	2,314	2,392	2,314
Marketing and promotion	2,274	2,377	2,274	2,377
Other expenses from ordinary activities	3,495	3,102	3,226	2,890
	19,125	16,592	18,856	16,380

7. Income tax expense

Income tax expenses recognised in profit or loss:

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Current tax expense:				
- in respect of current year	5,657	4,609	5,657	4,609
- in respect of prior year	17	7	17	7
Deferred tax income relating to the origination and reversal of temporary differences	335	(350)	335	(350)
Income tax expense	6,009	4,266	6,009	4,266

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

	The Group 2021 $000	The Group 2020 $000	The Bank 2021 $000	The Bank 2020 $000
Profit before income tax	19,933	14,322	22,258	15,941
Income tax calculated at 30% (2020: 30%)	5,980	4,297	6,677	4,782
Effect of expenses that are not deductible in determining taxable profit	24	16	1,173	1,588
Effect of income that is not assessable in determining taxable profit	-	-	(10,531)	(8,579)
Effect of income that is assessable in determining taxable profit	5	23	8,690	6,545
Effect of imputation credits	(17)	(77)	(17)	(77)
Adjustments recognised in the current year in relation to current tax of prior years	17	7	17	7
Income tax expense	6,009	4,266	6,009	4,266

8. Franking credits balance

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

	The Group 2021 $000	The Group 2020 $000	The Bank 2021 $000	The Bank 2020 $000
Franking account balance as at the end of the financial year at 30% (2020: 30%)	104,169	95,582	104,169	95,582
Franking credits that will decline from the refund of income tax receivable as at the end of the financial year	(1,441)	(1,269)	(1,441)	(1,269)
	102,728	94,313	102,728	94,313

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	
	2021 $000	2020 $000	2021 $000	2020 $000
Cash on hand	2,446	2,699	2,446	2,699
Call deposits with ADIs	82,995	62,718	82,995	62,718
Restricted cash on deposit with ADIs	32,146	32,850	-	-
	117,587	98,267	85,441	65,417
Interest receivable - cash and cash equivalents	9	12	9	12
	117,596	98,279	85,450	65,429

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	
	2021 $000	2020 $000	2021 $000	2020 $000
Term deposits with ADIs	19,950	19,950	19,950	19,950
Negotiable certificates of deposit	167,835	116,048	167,835	116,048
Floating rate notes	208,317	193,668	208,317	193,668
	396,102	329,666	396,102	329,666
Interest receivable - investments	264	556	264	556
	396,366	330,222	396,366	330,222
a. Maturity analysis				
Not longer than three months	102,442	95,219	102,442	95,219
Longer than three months, not longer than one year	108,843	94,799	108,843	94,799
Longer than one year, not longer than five years	184,817	139,648	184,817	139,648
	396,102	329,666	396,102	329,666

11. Equity investments

Unlisted shares in Cuscal - at FVTPL	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	2021 % owned	2020 % owned
DBL Funding Trust No. 1	Australia	100%	100%

Transactions with controlled entities The following transactions occurred with controlled entities:	2021 $000	2020 $000
Receipts		
Servicer fee	1,735	1,255
Trust manager fee	116	84
Trust administrator fee	231	167
Payments		
Payment of offset interest amounts under terms of trust deed	7,058	5,079

Additionally the Bank receives distribution income from DBL Funding Trust No.1 and interest income on its investment. However, these amounts are not recognised on the Bank's stand-alone financial statements as the transfer of loans fails to meet the accounting derecognition criteria.

13. Trade and other receivables

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Other operating receivables [1]	143	105	40,167	38,508
Trade debtors [2]	384	256	384	256
	527	361	40,551	38,764

[1] Other operating receivables for the Bank 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 2021 there are no past due or impaired trade and other receivables (2020: Nil).

14. Loans and advances

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Overdrafts	3,684	3,751	3,684	3,751
Credit cards	9,737	9,044	9,737	9,044
Term loans	2,479,106	2,296,442	2,479,106	2,296,442
Gross loans and advances	2,492,527	2,309,237	2,492,527	2,309,237
Provision for impairment	(329)	(1,048)	(329)	(1,048)
Deferred loan fee income	(947)	(918)	(947)	(918)
Deferred loan origination expenses	4,815	4,779	4,815	4,779
Net loans and advances	2,496,066	2,312,050	2,496,066	2,312,050

14. Loans and advances (continued)

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
a. Contractual maturity analysis				
Overdrafts	3,684	3,751	3,684	3,751
Not longer than three months	27,873	25,107	27,873	25,107
Longer than three months, not longer than one year	83,822	75,434	83,822	75,434
Longer than one year, not longer than five years	417,334	376,941	417,334	376,941
Longer than five years	1,959,814	1,828,004	1,959,814	1,828,004
	2,492,527	2,309,237	2,492,527	2,309,237
b. Loans by security type				
Mortgage over property				
- Loan to value ratio up to and including 80%	1,751,271	1,592,798	1,751,271	1,592,798
- Loan to value ratio over 80% with mortgage insurance	550,816	530,559	550,816	530,559
- Loan to value ratio over 80% without mortgage insurance	45,734	50,076	45,734	50,076
	2,347,821	2,173,433	2,347,821	2,173,433
Mortgage over other assets	93,247	87,210	93,247	87,210
Unsecured	51,459	48,594	51,459	48,594
	2,492,527	2,309,237	2,492,527	2,309,237
c. Loans by purpose				
Residential owner-occupied property	1,891,405	1,895,311	1,891,405	1,895,311
Residential investment property	456,359	277,271	456,359	277,271
Commercial property	736	850	736	850
Other	144,027	135,805	144,027	135,805
	2,492,527	2,309,237	2,492,527	2,309,237
d. Loans by state				
New South Wales	559,647	511,934	559,647	511,934
Victoria	301,385	289,825	301,385	289,825
Queensland	796,817	750,483	796,817	750,483
South Australia	203,628	180,425	203,628	180,425
Western Australia	194,692	179,086	194,692	179,086
Tasmania	23,730	16,747	23,730	16,747
Northern Territory	61,901	65,534	61,901	65,534
Australian Capital Territory	350,727	315,203	350,727	315,203
	2,492,527	2,309,237	2,492,527	2,309,237

14. Loans and advances (continued)

	The Group		The Bank	
	2021	2020	2021	2020
e. Loss allowance	$000	$000	$000	$000
Balance at the beginning of the financial year	1,048	614	1,048	614
(Decrease)/increase in provision on loans and advances	(609)	607	(609)	607
Bad debts written off	(110)	(173)	(110)	(173)
Balance at the end of the financial year	329	1,048	329	1,048

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loss allowance at 1 July 2020	229	304	515	1,048
Changes in the loss allowance				
- Transfer to/(from) stage 1	383	(30)	(353)	-
- Transfer (from)/to stage 2	(1)	10	(9)	-
- Transfer (from)/to stage 3	-	(110)	110	-
- Loans written off	-	(56)	-	(56)
- Loans paid off	(53)	(67)	(100)	(220)
- Net change in credit risk	(500)	12	(17)	(505)
New loans and advances originated	35	17	10	62
Loss allowance at 30 June 2021	93	80	156	329

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'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

Refer to note 34d for further detail on credit risk.

f. Concentration of credit risk

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

The Group has a concentration of credit risk by industry sector to the Australian Defence community (serving and former 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.

Notes to the financial statements

for the financial year ended 30 June 2021

15. Property, plant and equipment

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

	The Group 2021				
	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	6,157	3,471	-	9,807
Additions	-	1,294	1,181	8	2,483
Disposals	-	(1,587)	(1,368)	-	(2,955)
Reclassifications	-	-	-	-	-
Balance at the end of the financial year	179	5,864	3,284	8	9,335
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(4,408)	(3,111)	-	(7,698)
Depreciation expense	-	(874)	(190)	-	(1,064)
Disposals	-	1,560	1,323	-	2,883
Balance at the end of the financial year	(179)	(3,722)	(1,978)	-	(5,879)
Carrying amount at 30 June 2021	-	2,142	1,306	8	3,456

	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

15. Property, plant and equipment (continued)

	The Bank				
	2021				
	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	6,157	3,471	-	9,807
Additions	-	1,294	1,181	8	2,483
Disposals	-	(1,587)	(1,368)	-	(2,955)
Reclassifications	-	-	-	-	-
Balance at the end of the financial year	179	5,864	3,284	8	9,335
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(4,408)	(3,111)	-	(7,698)
Depreciation expense	-	(874)	(190)	-	(1,064)
Disposals	-	1,560	1,323	-	2,883
Balance at the end of the financial year	(179)	(3,722)	(1,978)	-	(5,879)
Carrying amount at 30 June 2021	-	2,142	1,306	8	3,456

	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

[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 2021			
	Buildings $000	**Computer equipment $000**	**Motor vehicles $000**	**Total $000**
At cost				
Balance at the beginning of the financial year	2,056	246	337	2,639
Lease modifications	(70)	4	(17)	(83)
Additions	2,280	-	50	2,330
Balance at the end of the financial year	4,266	250	370	4,886
Accumulated depreciation and impairment				
Balance at the beginning of the financial year	(878)	(103)	(133)	(1,114)
Depreciation expense	(762)	(99)	(146)	(1,007)
Balance at the end of the financial year	(1,640)	(202)	(279)	(2,121)
Carrying amount at 30 June 2021	2,626	48	91	2,765

	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

16. Right of use assets (continued)

	The Bank			
	2021			
	Buildings $000	Computer equipment $000	Motor vehicles $000	Total $000
At cost				
Balance at the beginning of the financial year	2,056	246	337	2,639
Lease modifications	(70)	4	(17)	(83)
Additions	2,280	-	50	2,330
Balance at the end of the financial year	4,266	250	370	4,886
Accumulated depreciation and impairment				
Balance at the beginning of the financial year	(878)	(103)	(133)	(1,114)
Depreciation expense	(762)	(99)	(146)	(1,007)
Balance at the end of the financial year	(1,640)	(202)	(279)	(2,121)
Carrying amount at 30 June 2021	2,626	48	91	2,765

	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
Disposals	-	-	-	-
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)
Disposals	-	-	-	-
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

A new lease for 31 Queen Street was entered into at 30th June 2021. This resulted in a new right of use asset being recognised, with a value of $2,280 thousand. This transaction is reflected within additions, in this note.

Total cash outflows for the year, in relation to lease obligations, are $1,565 thousand (2020: $1,525 thousand). Of this, $nil (2020: $nil) relates to short term leases, and $160 thousand (2020: $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			
	2021			
	Opening balance $000	Transitional adjustment $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,263	-	249	1,512
Provision for impairment on loans not yet deductible	315	-	(215)	100
Prior year bad debts not yet deductible	108	-	(29)	79
Property, plant and equipment	768	-	(276)	492
Lease expenses not yet deductible	95	-	(88)	7
Intangible assets	125	-	27	152
Accrued income not yet assessable	-	-	-	-
Accrued expenses not yet deductible	67	-	-	67
Prepayments	(2)	-	(3)	(5)
	2,739	-	(335)	2,404

	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 transitional adjustment for the year ended 30 June 2020 was made in relation to the adoption of AASB 16 *Leases* .

17. Deferred tax assets (continued)

	The Bank			
	2021			
	Opening balance $000	Transitional adjustment $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,263	-	249	1,512
Provision for impairment on loans not yet deductible	315	-	(215)	100
Prior year bad debts not yet deductible	108	-	(29)	79
Property, plant and equipment	768	-	(276)	492
Lease expenses not yet deductible	95	-	(88)	7
Intangible assets	125	-	27	152
Accrued income not yet assessable	-	-	-	-
Accrued expenses not yet deductible	67	-	-	67
Prepayments	(2)	-	(3)	(5)
	2,739	-	(335)	2,404

	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 transitional adjustment for the year ended 30 June 2020 was made in relation to the adoption of AASB 16 *Leases* .

18. Intangible assets

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

	The Group		
	2021		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	5,263	249	5,512
Additions	-	306	306
Reclassifications	468	(468)	-
Balance at the end of the financial year	5,731	87	5,818
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(4,382)	-	(4,382)
Amortisation expense	(680)	-	(680)
Balance at the end of the financial year	(5,062)	-	(5,062)
Carrying amount at 30 June 2021	669	87	756

	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

18. Intangible assets (continued)

	The Bank		
	2021		
	Computer software $000	**Work in progress[4] $000**	**Total $000**
At cost			
Balance at the beginning of the financial year	5,263	249	5,512
Additions	-	306	306
Reclassifications	468	(468)	-
Balance at the end of the financial year	5,731	87	5,818
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(4,382)	-	(4,382)
Amortisation expense	(680)	-	(680)
Balance at the end of the financial year	(5,062)	-	(5,062)
Carrying amount at 30 June 2021	669	87	756

	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

[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		The Bank	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $000**
Prepayments	1,233	876	1,233	876

20. Borrowings

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Secured borrowings from the RBA	112,424	24,995	112,424	24,995
Other secured borrowings (refer to note 31)	348,933	322,160	348,933	322,160
Floating rate subordinated notes	15,000	-	15,000	-
	476,357	347,155	476,357	347,155
Deferred borrowing costs	(847)	(177)	(847)	(177)
Interest payable - borrowings	369	200	369	200
	475,879	347,178	475,879	347,178
Maturity analysis				
At call	-	-	-	-
Not longer than three months	3,113	2,676	3,113	2,676
Longer than three months, not longer than one year	9,620	8,340	9,620	8,340
Longer than one year, not longer than five years	164,487	70,659	164,487	70,659
Longer than five years	299,137	265,480	299,137	265,480
	476,357	347,155	476,357	347,155

Securities sold under agreements to repurchase represents borrowings made under the RBA Term Funding Facility. $15 million of 10 year, non-call 5 year, floating rate subordinated notes were issued on 17th February 2021.

21. Lease liabilities

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Lease liabilities	2,787	1,945	2,787	1,945
Maturity analysis				
At call	-	-	-	-
Not longer than three months	176	365	176	365
Longer than three months, not longer than one year	452	1,004	452	1,004
Longer than one year, not longer than five years	2,159	576	2,159	576
Longer than five years	-	-	-	-
	2,787	1,945	2,787	1,945

22. Reconciliation of liabilities arising from financing activities

	2020 $000	Cash flows $000	Non-cash $000	2021 $000
Securities sold under agreements to repurchase	24,995	87,429	-	112,424
Secured borrowings	322,160	26,773	-	348,933
Floating rate subordinated notes	-	15,000	-	15,000
Lease liabilities	1,945	(1,405)	2,247	2,787
Deferred borrowing costs	(177)	(765)	95	(847)
	348,923	127,032	2,342	478,297

23. Deposits

	The Group		The Bank	
	2021	2020	2021	2020
	$000	$000	$000	$000
Redeemable member shares	495	563	495	563
Call deposits	1,203,849	952,369	1,203,849	952,369
Term deposits	909,400	1,024,662	909,400	1,024,662
Electronic certificates of deposit	214,302	219,918	214,302	219,918
	2,328,046	2,197,512	2,328,046	2,197,512
Deferred borrowing costs	(60)	(45)	(60)	(45)
Interest payable - deposits	2,844	7,240	2,844	7,240
	2,330,830	2,204,707	2,330,830	2,204,707

a. Maturity analysis

	The Group 2021 $000	The Group 2020 $000	The Bank 2021 $000	The Bank 2020 $000
At call	1,204,345	952,932	1,204,345	952,932
Not longer than three months	450,394	563,343	450,394	563,343
Longer than three months, not longer than one year	581,325	640,343	581,325	640,343
Longer than one year, not longer than five years	91,982	40,894	91,982	40,894
	2,328,046	2,197,512	2,328,046	2,197,512

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	
	2021	2020	2021	2020
	$000	$000	$000	$000
Trade creditors	15	17	15	17
Other operating payables	363	368	363	368
Accrued expenses	3,580	2,162	3,580	2,162
Accrued capital expenditure	509	-	509	-
Unearned commissions	150	308	150	308
	4,617	2,855	4,617	2,855

Notes to the financial statements

for the financial year ended 30 June 2021

25. Provisions

	The Group		The Bank	
	2021	2020	2021	2020
	$000	$000	$000	$000
Provision for employee entitlements	5,049	4,219	5,049	4,219
Other provisions	29	20	29	20
	5,078	4,239	5,078	4,239
Maturity analysis				
Not longer than one year	4,608	3,794	4,608	3,794
Longer than one year	470	445	470	445
	5,078	4,239	5,078	4,239

26. Share capital

	The Group		The Bank	
	2021	2020	2021	2020
	$000	$000	$000	$000
Balance at the beginning of the financial year	1,031	1,012	1,031	1,012
Transfer on redemption of redeemable member shares	69	19	69	19
Balance at the end of the financial year	1,100	1,031	1,100	1,031

Share capital represents the cumulative amount of redeemable member 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	
	2021	2020	2021	2020
	$000	$000	$000	$000
a. General reserve				
Balance at the beginning of the financial year	182,000	172,720	187,553	176,654
AASB 16 transitional adjustment to retained earnings	-	(320)	-	(320)
Transfer to the general reserve for credit losses	(78)	(437)	(78)	(437)
Transfer from retained earnings	13,855	10,037	16,180	11,656
Balance at the end of the financial year	195,777	182,000	203,655	187,553

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 member 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	
	2021 $000	2020 $000	2021 $000	2020 $000
Balance at the beginning of the financial year	5,948	5,511	5,948	5,511
Transfer from the general reserve for credit losses	78	437	78	437
Balance at the end of the financial year	6,026	5,948	6,026	5,948

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	
	2021 $000	2020 $000	2021 $000	2020 $000
Profit from continuing operations after income tax	13,924	10,056	16,249	11,675
Transfers to share capital upon redemption of redeemable member shares	(69)	(19)	(69)	(19)
Transfers to general reserve	(13,855)	(10,037)	(16,180)	(11,656)
Retained earnings at the end of the financial year	-	-	-	-

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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 unrestricted balances held with other financial institutions. Profit for the year from continuing operations can be reconciled to net cash flows from operating activities as follows:

	The Group		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Profit for the year from continuing operations	13,924	10,056	16,249	11,675
Add non-cash items				
(Decrease)/increase in provision on loans and advances	(609)	607	(609)	607
Amortisation of deferred borrowing costs	95	50	95	50
Depreciation of property, plant and equipment	1,064	1,200	1,064	1,200
Depreciation of right of use assets	1,007	1,114	1,007	1,114
Amortisation of intangible assets	680	647	680	647
Decrease/(increase) in assets				
Interest receivable - cash and cash equivalents	3	30	3	30
Interest receivable - investments	292	519	292	519
Trade debtors	(128)	231	(128)	231
Prepaid expenses	(357)	(109)	(357)	(109)
Other operating receivables	(38)	150	(1,659)	(20,329)
Current tax assets	-	314	-	314
Deferred tax assets	335	(350)	335	(350)
Investments	(66,436)	(59,977)	(66,436)	(59,977)
Overdraft balances	67	1,133	67	1,133
Credit card balances	(693)	2,357	(693)	2,357
Term loans	(182,781)	(177,914)	(182,781)	(177,914)
Increase/(decrease) in liabilities				
Interest payable - borrowings	169	(39)	169	(39)
Interest payable - deposits	(4,396)	(4,474)	(4,396)	(4,474)
Trade creditors	(2)	2	(2)	2
Accrued expenses	1,418	367	1,418	367
Unearned commissions	(158)	(180)	(158)	(180)
Provision for employee benefits	830	441	830	441
Current tax liabilities	(313)	1,027	(313)	1,027
Other provisions	9	(3)	9	(3)
Redeemable member shares	(68)	(19)	(68)	(19)
Other operating payables	(5)	99	(5)	99
Call deposits	251,480	161,402	251,480	161,402
Term deposits	(115,262)	(42,510)	(115,262)	(42,510)
Electronic certificates of deposit	(5,631)	(2,130)	(5,631)	(2,130)
(Deduct)/add cash flows from investing activities included in operating profit				
Gain on disposal of equipment	-	(2)	-	(2)
Loss on disposal of equipment	72	1	72	1
Net cash used in operating activities	(105,432)	(105,960)	(104,728)	(124,820)

30. Financial commitments

Outstanding loan commitments	**The Group**		**The Bank**	
	2021	**2020**	**2021**	**2020**
	$000	**$000**	**$000**	**$000**
Loans approved but not advanced	95,676	56,061	95,676	56,061
Amounts available for redraw under term loans	207,497	213,440	207,497	213,440
Unused balance of revolving credit facilities	43,385	44,682	43,385	44,682
	346,558	314,183	346,558	314,183

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 (2020: Nil). The balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $7,539 thousand (2020: $10,244 thousand).

b. DBL Funding Trust No.1

The Bank has established DBL Funding Trust No. 1, which comprises four series; Repo Series No. 1, Series 2015-1PP, ANZ Warehouse Series and Salute Series 2021-1.

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 nil eligible mortgage receivables were transferred to the DBL Trust Repo Series No. 1 (2020: $492.9 million).

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, $98.1 million of eligible mortgage receivables were transferred to the ANZ Warehouse (2020: $169.9 million) with Senior A class RMBS issued to ANZ and subordinate B class RMBS issued to the Bank.

Salute Series 2021-1 was established in April 2021. The Bank transferred $297.6 million of eligible mortgage receivables to Salute Series 2021-1, with $300 million of RMBS issued to third parties. This represented the Bank's inaugural public RMBS transaction, and one that meets APRA's operational requirements for regulatory capital relief under APS 120 Securitisation.

The outstanding balance of the Senior notes issued by Series 2015-1PP and ANZ Warehouse Series, and the outstanding note balance of the Salute Series 2021-1, have been recognised as secured borrowings of the Bank and are disclosed in note 20.

The mortgage receivables transferred to all of the above series have not been derecognised, as the Bank retains substantially all of the risks and rewards of the transferred assets (see note 3n)

32. Remuneration of auditor

	The Group		The Bank	
	2021	2020	2021	2020
	$	$	$	$
Deloitte Touche Tohmatsu				
Audit or review of the financial statements				
- Group	126,775	110,275	126,775	110,275
Statutory assurance services required by legislation to be provided by the auditor	58,025	60,775	58,025	60,775
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	-	50,510	-	50,510
Other services:				
- Consulting services	11,000	-	11,000	-
	195,800	221,560	195,800	221,560
Other auditors and their related network firms				
Audit or review of the financial statements				
- Group	-	-	-	-
Statutory assurance services required by legislation to be provided by the auditor	-	-	-	-
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	159,309	168,364	159,309	168,364
Other services:				
- Tax consulting services	36,300	36,020	36,300	36,020
- Other consulting services	-	37,977	-	37,977
	195,609	242,361	195,609	242,361

Statutory assurance services required by legislation 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, and seven executive managers. The aggregate compensation made to key management personnel of the Group during the financial year is as follows:

	2021 $	2020 $
Non executive directors' remuneration:		
Short-term employee benefits	698,330	665,290
Executive management remuneration:		
Short-term employee benefits	3,138,129	3,482,869
Other long-term benefits	165,830	53,535
Termination benefits	256,126	-
	3,560,085	3,536,404
Total key management personnel remuneration:		
Short-term employee benefits	3,836,459	4,148,159
Other long-term benefits	165,830	53,535
Termination benefits	256,126	-
	4,258,415	4,201,694

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 2021 $000	The Group 2020 $000	The Bank 2021 $000	The Bank 2020 $000
Financial assets				
Cash and cash equivalents	117,596	98,279	85,450	65,429
Financial assets at amortised cost:				
Investments	396,366	330,222	396,366	330,222
Trade and other receivables	527	361	40,551	38,764
Loans and advances	2,496,066	2,312,050	2,496,066	2,312,050
Financial assets at FVTPL:				
Equity investments	1,639	1,639	1,639	1,639
	3,012,194	2,742,551	3,020,072	2,748,104
Financial liabilities				
At amortised cost:				
Borrowings	475,879	347,178	475,879	347,178
Deposits	2,330,830	2,204,707	2,330,830	2,204,707
Trade and other payables	4,617	2,855	4,617	2,855
	2,811,326	2,554,740	2,811,326	2,554,740

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		The Bank	
	2021 $000	2020 $000	2021 $000	2020 $000
Profit after tax	4,099	5,156	3,875	4,925
Equity	4,099	5,156	3,875	4,925

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 14b.

The Group has a concentration of credit risk by industry sector to the Defence community (serving and former 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 2021					
	Current and not impaired				Past due and/or impaired	Total
		Rated (Long term, Short term) [5]				
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	117,596	-	-	-	117,596
Financial assets at amortised cost:						
Investments	-	106,072	139,147	151,147	-	396,366
Trade and other receivables	527	-	-	-	-	527
Loans and advances	2,492,036	-	-	-	4,030	2,496,066
Financial assets at FVTPL:						
Equity investments	-	1,639	-	-	-	1,639
	2,492,563	225,307	139,147	151,147	4,030	3,012,194

	The Group 2020					
	Current and not impaired				Past due and/or impaired	Total
		Rated (Long term, Short term) [5]				
	Unrated	≥ AA-, A1	≥ A-, A2	≥ BBB-, A3		
	$000	$000	$000	$000	$000	$000
Financial assets						
Cash and cash equivalents	-	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 FVTPL:						
Equity investments	-	1,639	-	-	-	1,639
	2,339,974	186,141	84,992	129,680	1,764	2,742,551

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34. Financial instruments (continued)

	The Bank 2021					
	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	-	85,450	-	-	-	85,450
Financial assets at amortised cost:						
Investments	-	106,072	139,147	151,147	-	396,366
Trade and other receivables	40,551	-	-	-	-	40,551
Loans and advances	2,492,036	-	-	-	4,030	2,496,066
Financial assets at FVTPL:						
Equity investments	-	1,639	-	-	-	1,639
	2,532,587	193,161	139,147	151,147	4,030	3,020,072

	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 FVTPL:						
Equity investments	-	1,639	-	-	-	1,639
	2,378,377	153,291	84,992	129,680	1,764	2,748,104

[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)

An analysis of financial assets classified by risk grade under the expected credit losses model is as follows:

	The Group 2021			
	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $000
Overdrafts	3,651	4	29	3,684
Credit cards	9,702	12	23	9,737
Term loans	2,475,144	1,386	2,576	2,479,106
Gross loans and advances	2,488,497	1,402	2,628	2,492,527

	The Group 2020			
	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $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

	The Bank 2021			
	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $000
Overdrafts	3,651	4	29	3,684
Credit cards	9,702	12	23	9,737
Term loans	2,475,144	1,386	2,576	2,479,106
Gross loans and advances	2,488,497	1,402	2,628	2,492,527

	The Bank 2020			
	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $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

In response to the COVID-19 pandemic, the Bank offered assistance to those members that had 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 took 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 was appropriate to each member's circumstances. To monitor the extent of these arrangements, each loan granted financial assistance was noted as such, with details of the specific arrangement fully documented. At 30 June 2021, all such loans had either been formally restructured, or had otherwise returned to a status of fully performing.

34. Financial instruments (continued)

For the year ended 30 June 2020, the Group adopted a conservative approach and, for all loans granted COVID-19 related hardship, took the position that this constituted objective evidence of impairment. All such loans were classed as stage 3 in the ECL model, and were assessed on an individual basis with reference to the specific circumstances of that financial asset, such as the total exposure the Group had 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.

During the year ended 30 June 2021, the majority of this provision was written back as the COVID-19 related hardship loans cured. In arriving at the loss provision for 30 June 2021, a probability-weighted assessment was again undertaken. It is important to note that the assumptions made in these assessments are subject to judgement. The effect on profit before tax if the probability of the base case scenario was 100% is set out below.

	2021		2020	
	Group $000	**Bank $000**	**Group $000**	**Bank $000**
Increase in profit and equity	2	2	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 2021 the Minimum Liquid Holdings ratio was 16.6% (2020: 15.2%).

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

	The Group		The Bank	
	2021 $000	**2020 $000**	**2021 $000**	**2020 $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:

	2021 $000	**2020 $000**
Aaa(sf) rated RMBS	530,114	689,784
Less: pledged as collateral for secured borrowings from the RBA	(180,560)	(29,700)
	349,554	660,084

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					
	2021					
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	-	3,923	12,011	177,027	324,734	517,695
Lease Liabilities	-	176	452	2,160	-	2,788
Deposits	1,204,344	452,557	584,314	93,217	-	2,334,432
Trade and other payables	-	4,617	-	-	-	4,617
	1,204,344	461,273	596,777	272,404	324,734	2,859,532

34. Financial instruments (continued)

	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

	The Bank					
	2021					
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	-	3,923	12,011	177,027	324,734	517,695
Lease Liabilities	-	176	452	2,160	-	2,788
Deposits	1,204,344	452,557	584,314	93,217	-	2,334,432
Trade and other payables	-	4,617	-	-	-	4,617
	1,204,344	461,273	596,777	272,404	324,734	2,859,532

	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

34. Financial instruments (continued)

Fair values

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

	The Group			
	Carrying amount		Fair value	
	2021 $000	2020 $000	2021 $000	2020 $000
Financial assets				
Cash and cash equivalents	117,596	98,279	117,596	98,279
Financial assets at amortised cost:				
Investments	396,366	330,222	397,769	330,736
Trade and other receivables	527	361	527	361
Loans and advances	2,496,066	2,312,050	2,499,255	2,316,020
Financial assets at FVTPL:				
Equity investments [6]	1,639	1,639	1,639	1,639
	3,012,194	2,742,551	3,016,786	2,747,035
Financial liabilities				
At amortised cost:				
Borrowings	475,879	347,178	475,879	347,178
Deposits	2,330,830	2,204,707	2,331,415	2,207,870
Trade and other payables	4,617	2,855	4,617	2,855
	2,811,326	2,554,740	2,811,911	2,557,903

	The Bank			
	Carrying amount		Fair value	
	2021 $000	2020 $000	2021 $000	2020 $000
Financial assets				
Cash and cash equivalents	85,450	65,429	85,450	65,429
Financial assets at amortised cost:				
Investments	396,366	330,222	397,769	330,736
Trade and other receivables	40,551	38,764	40,551	38,764
Loans and advances	2,496,066	2,312,050	2,499,255	2,316,020
Financial assets at FVTPL:				
Equity investments [6]	1,639	1,639	1,639	1,639
	3,020,072	2,748,104	3,024,664	2,752,588
Financial liabilities				
At amortised cost:				
Borrowings	475,879	347,178	475,879	347,178
Deposits	2,330,830	2,204,707	2,331,415	2,207,870
Trade and other payables	4,617	2,855	4,617	2,855
	2,811,326	2,554,740	2,811,911	2,557,903

[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 21			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	117,596	-	-	117,596
Financial assets at amortised cost:				
Investments	-	397,769	-	397,769
Trade and other receivables	-	-	527	527
Loans and advances	-	-	2,499,255	2,499,255
Financial assets at FVTPL:				
Equity investments	-	-	1,639	1,639
	117,596	397,769	2,501,421	3,016,786
Financial liabilities				
At amortised cost:				
Borrowings	-	-	475,879	475,879
Deposits	-	-	2,331,415	2,331,415
Trade and other payables	-	-	4,617	4,617
	-	-	2,811,911	2,811,911

	The Group			
	Fair value hierarchy as at 30 June 20			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	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 FVTPL:				
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 applies discounted cash flow as the valuation technique for level 3 financial instruments, with the risk-adjusted discount rate as the key unobservable input, except for equity investments where cost is used as the best estimate of fair value.

34. Financial instruments (continued)

	The Bank			
	Fair value hierarchy as at 30 June 21			
	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000
Financial assets				
Cash and cash equivalents	85,450	-	-	85,450
Financial assets at amortised cost:				
Investments	-	397,769	-	397,769
Trade and other receivables	-	-	40,551	40,551
Loans and advances	-	-	2,499,255	2,499,255
Financial assets at FVTPL:				
Equity investments	-	-	1,639	1,639
	85,450	397,769	2,541,445	3,024,664
Financial liabilities				
At amortised cost:				
Borrowings	-	-	475,879	475,879
Deposits	-	-	2,331,415	2,331,415
Trade and other payables	-	-	4,617	4,617
	-	-	2,811,911	2,811,911

	The Bank			
	Fair value hierarchy as at 30 June 20			
	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000
Financial assets				
Cash on hand and on deposit	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 FVTPL:				
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

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**	
	2021	**2020**	**2021**	**2020**
	%	**%**	**%**	**%**
Common Equity Tier 1 ratio	14.3	13.4	14.3	13.4
Total Tier 1 Capital ratio	14.3	13.4	14.3	13.4
Tier 2 Capital ratio	1.7	0.5	1.7	0.5
Total Capital ratio	16.0	13.9	16.0	13.9

Tier 2 Capital includes a tier 2 capital instrument in the form of a $15 million 10 year, non-call 5 year, floating rate subordinated note, issued on 17th February 2021.

Under the securitisation deconsolidation principle, where the Bank participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under APS 120 Securitisation, the underlying assets (i.e. the pool of residential mortgage loans) under such a securitisation may be excluded from the calculation of regulatory capital. Salute Series 2021-1 has complied with APS 120, hence its assets are not included in the calculation of capital adequacy.

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

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

38. Approval of financial statements

The financial statements were approved by the Board of directors and authorised for issue on 11 October 2021.

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 2021.

F Raymond
Chair of the Board
11 October 2021

A Myers
Chair of the Audit Committee
11 October 2021

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 (0) 2 9322 7000
www.deloitte.com.au

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 consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial 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 2021 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 2021 but does not include the financial reports and our auditor's report thereon.

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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

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.

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- 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.

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

Heather Baister
Partner
Chartered Accountants
Sydney, 11 October 2021.

Auditor's independence declaration

Deloitte Touche Tohmatsu
ABN 74 490 121 060
225 George Street
Sydney, NSW, 2000
Australia

Tel: +61 2 9322 7000
www.deloitte.com.au

11 October 2021

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

Dear Board Members

Auditor's Independence Declaration to Defence Bank Limited

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

As lead audit partner for the audit of the financial statements of Defence Bank Limited for the financial year ended 30 June 2021, 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

Heather Baister
Partner

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 10, 31 Queen Street MELBOURNE VIC 3000
Corporate rating	Standard and Poor's BBB / Positive / A-2 Moody's Investor Services Baa1/ Stable/ P-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.