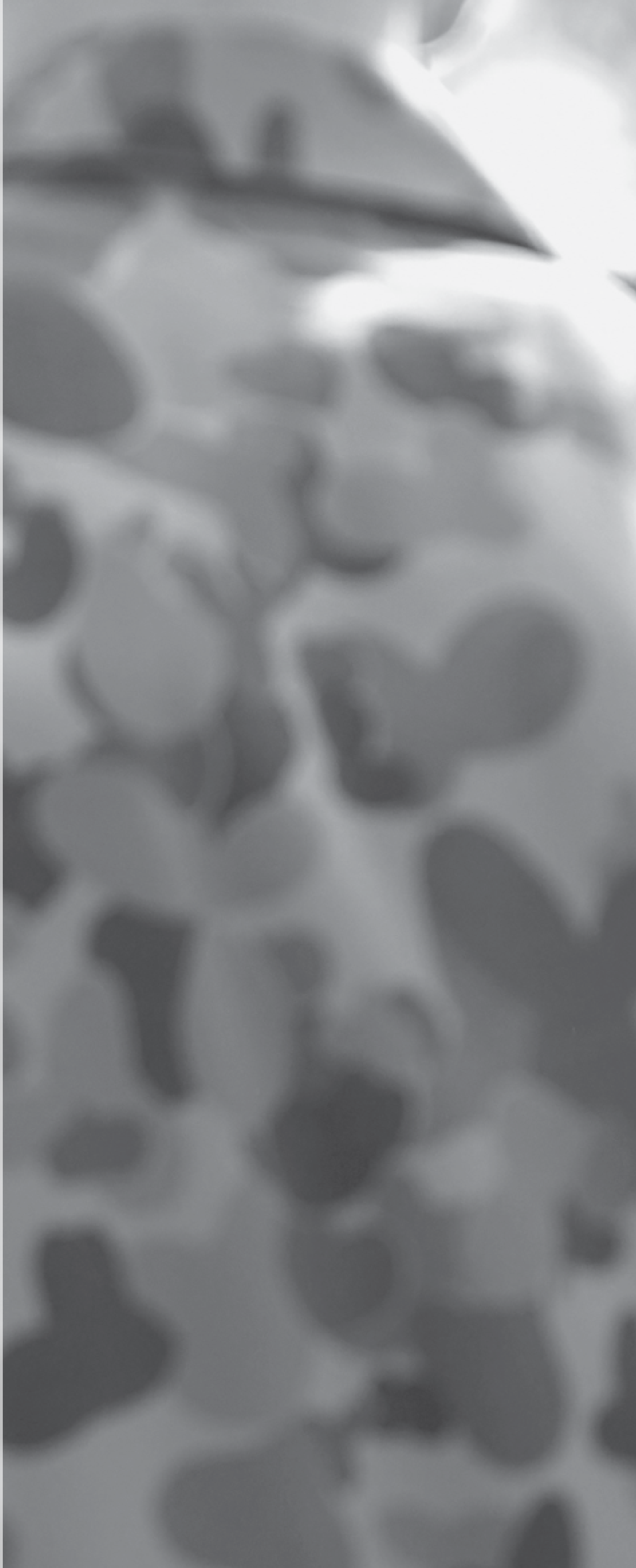
Defence Bank

2021-2022 Annual Financial Report.



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Should you require more details of Defence Bank's financial position, a full copy of the 2021-2022 Annual Financial Report can be obtained from our website at **defencebank.com.au** or by emailing your request to our Company Secretary at **info@defencebank.com.au.**

Defence Bank Limited ABN 57 087 651 385
AFSL/Australian Credit Licence 234582.
Support Office Level 10, 31 Queen Street, Melbourne VIC 3000.

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 and its controlled entities, for the financial year ended 30 June 2022. 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 22 November 2021.
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 22 November 2021.
Group Captain Jeffrey HOWARD	OAM, FIEAust, CPEng, GAICD, BE, MCom, MA, psc(j)	Initially elected to 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.

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	2	2	5	5
B Murphy	9	9	-	-	7	7	-	-	5	5
A Myers	9	9	3	3	7	7	-	-	1	1
J Fitzpatrick	9	8	3	2	7	6	-	-	-	-
J Howard	9	9	3	3	-	-	-	-	-	-
I Murray	9	9	-	-	-	-	-	-	5	5
P Rebecca	9	9	-	-	7	7	-	-	-	-

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 $16,655 thousand (2021: $13,924 thousand) after providing $6,950 thousand (2021: $6,009 thousand) for income tax expense.

b. Deposit and lending growth

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

	2022 $000	2021 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	3,206,505	3,022,808	183,697	6.1
Total deposits	2,524,637	2,330,830	193,807	8.3
Total equity	219,558	202,903	16,655	8.2
Net loans and advances	2,667,069	2,496,066	171,003	6.9
Securitised housing loans (off balance sheet)	5,830	7,539	(1,709)	(22.7)
Total loans and advances (on and off balance sheet)	2,672,899	2,503,605	169,294	6.8

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. The branch at Campbell Park was closed in April 2022, in advance of a planned redevelopment of the surrounding area and aligning with a decline in business carried out at this branch. This was achieved with little disruption to our member service proposition, with Campbell Park team members absorbed into other nearby branches and our Canberra team spending additional time at other local bases, to maintain our presence and reinforce our ongoing commitment to the Canberra region.

d. Partnerships

The Bank has continued its strategy of partnering with like-minded organisations to support its members, and has successfully expanded the Defence Industry Partners program (DIP) during the year. The DIP program is specialised and unique in its offering to the defence sector, and has enabled the Bank to diversify the way it serves the ADF, partnering with organisations that play a vital role in supporting the ADF and providing financial services to their employees, including the delivery of financial education seminars. In the last six months, the Bank has initiated 17 new partnerships and this continues to increase our presence within the defence sector.

e. Product development and awards

The Bank continues to improve products and services for members. The Bank remained a panel lender under the Commonwealth Government's Home Guarantee Scheme, taking part in initiatives such as the First Home Guarantee and Family Home Guarantee schemes, which have assisted a number of members in acquiring their first home. The Defence Bank Foundation Credit Card was awarded a five star rating by Canstar, and the Bank received Mozo Experts Choice awards for the Investor Fixed Rate Home Loan and the Low Rate Credit Card. Further product rationalisation was carried out in the year, with the removal of the Defence Bank Super product.

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. The Defence Bank Foundation credit card was launched in October 2020, to provide support to the Defence Community Dogs program. 50% of the annual fees for this credit card are donated to the Defence Bank Foundation, and by 30 June 2022 a total of $25,718 had been raised.

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 an ongoing rating of 4.8/5 stars by our Members in both the Apple App Store and Google Play. Additionally, significant investment has been made to the Bank's end to end lending processes, with the successful delivery of new capability for personal loan originations.

h. Community involvement
The Bank has continued to support the Defence Community through sponsorships for DCO welcome days and for sporting teams across rugby, AFL and golf. The Bank also supports the Defence Community through donations to various social and welfare organisations and continues as a proud supporter of the defence spouse community through the Military Wife podcast, with this year also seeing the launch of the Spouse Banking Forum with Military Life. 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 72%, which places the Bank in the top decile when compared to peer financial services organisations. Following the completion of the support office refurbishment and consolidation of working space, hybrid working has been adopted for all support office staff, and several wellbeing initiatives have been supported, such as the R U OK day. An employee assistance program is available to all employees and the Bank has developed a Thrive Program, which provides resources to assist employees with their mental and physical wellbeing.

j. Defence Home Ownership Assistance Scheme (DHOAS)
The Bank has continued to focus on providing eligible Defence personnel competitive home loans under this scheme. In June 2022, and in recognition of the Bank's performance in satisfying its obligations and performance targets under the DHOAS Home Loan Provider Deed, the Bank received a two year extension as a DHOAS panel lender.

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 +54 and 87% respectively, which represented all time highs. The Bank also continued to utilise the ENP Trust Framework, and this returned an average score of +67 for the year, which compares well to peer financial services organisations and is an increase from +59 recorded for the prior year.

l. COVID 19
The Bank, being considered an essential service, has continued to trade through the COVID 19 pandemic. Measures 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 have continued to operate throughout the year. 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.

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 2021, 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 7.

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
17 October 2022

A Myers
Chair of the Audit Committee
17 October 2022

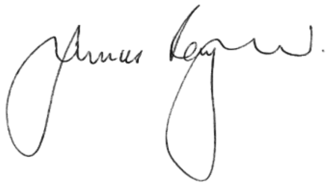
Directors' declaration

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 2022.



F Raymond
Chair of the Board
17 October 2022

A Myers
Chair of the Audit Committee
17 October 2022

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

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

The Board of Directors
Defence Bank Limited
Level 10, 31 Queen Street
Melbourne VIC 3001

17 October 2022

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 report of Defence Bank Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Lani Cockrem

Lani Cockrem
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
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Independent Auditor's Report to the Members of Defence Bank

Opinion

We have audited the financial reports of Defence Bank Limited (the "Bank") and its subsidiaries (the "Group") which comprise the Group and the Bank's consolidated statement of financial position as at 30 June 2022, 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 Bank are in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group and the Bank's financial position as at 30 June 2022 and of their financial performance for the year then ended; and
- 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 Bank (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 Bank's annual report for the year ended 30 June 2022 but does not include the financial reports and our auditor's report thereon.

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

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

Deloitte.

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 the 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 Bank 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 Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Reports

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

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

- Identify and assess the risks of material misstatement of the financial reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group or the Bank'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 Bank'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 Bank 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Lani Cockrem

Lani Cockrem
Partner
Chartered Accountants

Melbourne, 17 October 2022

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2022

		Group		Bank	
		2022	2021	2022	2021
	Notes	$000	$000	$000	$000
Income					
Interest income	5	72,523	74,366	72,494	74,341
Interest expense	5	(11,881)	(17,946)	(11,881)	(17,946)
Net interest income		60,642	56,420	60,613	56,395
Net gain on equity investments designated as fair value through profit or loss		3,686	-	3,686	-
Other income	6	8,261	7,054	10,202	9,135
		72,589	63,474	74,501	65,530
Expenses					
Personnel expenses	6	24,640	22,274	24,640	22,274
Depreciation and amortisation expense	6	2,634	2,751	2,634	2,751
Increase/(decrease) in provision on loans and advances	13e	727	(609)	727	(609)
Other expenses	6	20,983	19,125	20,718	18,856
		48,984	43,541	48,719	43,272
Profit before income tax		23,605	19,933	25,782	22,258
Income tax expense	7	6,950	6,009	6,950	6,009
Profit for the year from continuing operations		16,655	13,924	18,832	16,249
Other comprehensive income		-	-	-	-
Total comprehensive income		16,655	13,924	18,832	16,249

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2022

	Notes	Group 2022 $000	Group 2021 $000	Bank 2022 $000	Bank 2021 $000
Assets					
Cash and cash equivalents	9	120,269	117,596	79,592	85,450
Investments	10	403,069	396,366	403,069	396,366
Equity investments	11	5,325	1,639	5,325	1,639
Trade and other receivables	12	523	527	51,255	40,551
Loans and advances	13	2,667,069	2,496,066	2,667,069	2,496,066
Property, plant and equipment	14	2,263	3,456	2,263	3,456
Intangible assets	15	435	756	435	756
Right of use assets	16	3,578	2,765	3,578	2,765
Deferred tax assets	17	1,759	2,404	1,759	2,404
Other assets	18	2,215	1,233	2,215	1,233
		3,206,505	3,022,808	3,216,560	3,030,686
Liabilities					
Trade and other payables	19	3,252	4,617	3,252	4,617
Current tax liabilities		159	714	159	714
Deposits	20	2,524,637	2,330,830	2,524,637	2,330,830
Lease liabilities	21	3,675	2,787	3,675	2,787
Borrowings	22	449,567	475,879	449,567	475,879
Provisions	24	5,657	5,078	5,657	5,078
		2,986,947	2,819,905	2,986,947	2,819,905
Net assets		219,558	202,903	229,613	210,781
Equity					
Share capital	25	1,167	1,100	1,167	1,100
Reserves	26	218,391	201,803	228,446	209,681
Retained earnings	27	-	-	-	-
		219,558	202,903	229,613	210,781

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the financial year ended 30 June 2022

	Group				
	2022				
	Share capital $000	**General reserve for credit losses $000**	**General reserve $000**	**Retained earnings $000**	**Total equity $000**
Balance at 1 July 2021	1,100	6,026	195,777	-	202,903
Transfer on redemption of redeemable member shares	67	-	-	(67)	-
Transfer from general reserve for credit losses	-	(6,026)	6,026	-	-
Profit for the financial year	-	-	-	16,655	16,655
Transfer to general reserve	-	-	16,588	(16,588)	-
Balance at 30 June 2022	1,167	-	218,391	-	219,558

	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

Consolidated statement of changes in equity

for the financial year ended 30 June 2022

	Bank 2022				
	Share capital $000	**General reserve for credit losses $000**	**General reserve $000**	**Retained earnings $000**	**Total equity $000**
Balance at 1 July 2021	1,100	6,026	203,655	-	210,781
Transfer on redemption of redeemable member shares	67	-	-	(67)	-
Transfer from general reserve for credit losses	-	(6,026)	6,026	-	-
Profit for the financial year	-	-	-	18,832	18,832
Transfer to general reserve	-	-	18,765	(18,765)	-
Balance at 30 June 2022	1,167	-	228,446	-	229,613

	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 accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the financial year ended 30 June 2022

	Notes	Group 2022 $000	Group 2021 $000	Bank 2022 $000	Bank 2021 $000
Cash flows from operating activities					
Interest received		72,077	74,661	72,048	74,636
Fees and commissions received		7,061	6,551	7,061	6,551
Other income received		957	476	2,898	2,557
Dividends received		506	41	506	41
Recoveries on loans previously written off		75	148	75	148
Goods and services tax refunded		917	934	917	934
Interest paid		(11,885)	(22,078)	(11,885)	(22,078)
Payments to suppliers and employees		(48,437)	(40,811)	(48,172)	(40,542)
Tax (paid)/collected on retirement savings accounts		(251)	200	(251)	200
Income tax paid		(6,609)	(6,187)	(6,609)	(6,187)
Cash flows from operating activities before changes in operating assets and liabilities		14,411	13,935	16,588	16,260
Net increase in investments		(6,285)	(66,436)	(6,285)	(66,436)
Net increase in loans and advances		(171,730)	(183,407)	(171,730)	(183,407)
Decrease/(increase) in other operating receivables		4	(38)	(10,704)	(1,659)
Net increase in deposits		194,402	130,519	194,402	130,519
Increase/(decrease) in other operating payables		253	(5)	253	(5)
Net cash provided by/(used in) operating activities	28	31,055	(105,432)	22,524	(104,728)
Cash flows from investing activities					
Purchases of property, plant and equipment	14	(471)	(1,974)	(471)	(1,974)
Purchases of intangible assets	15	(242)	(306)	(242)	(306)
Net cash used in investing activities		(713)	(2,280)	(713)	(2,280)
Cash flows from financing activities					
Net (decrease)/increase in borrowings	23	(26,903)	128,437	(26,903)	128,437
Net decrease in lease liabilities	23	(794)	(1,405)	(794)	(1,405)
Net cash flow from financing activities		(27,697)	127,032	(27,697)	127,032
Net increase/(decrease) in cash and cash equivalents		2,645	19,320	(5,886)	20,024
Cash and cash equivalents at the beginning of the financial year		117,587	98,267	85,441	65,417
Cash and cash equivalents at the end of the financial year	9	120,232	117,587	79,555	85,441

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2022

Notes to the financial statements

for the financial year ended 30 June 2022

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 2021, and therefore relevant for the current financial year.

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.

The Group does not hold any securities which will be impacted by a change in the benchmark rate, and the effect of these amendments on the Group's financial statements is immaterial.

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.

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

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 2020-3 *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 17 October 2022.

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:

3. Significant accounting policies (continued)

b. Basis of preparation (continued)

- 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 30 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.

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.

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

<u>The Group as lessee</u>
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

3. Significant accounting policies (continued)

e. Leasing (continued)

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).
- 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.

3. Significant accounting policies (continued)

g. Taxation

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

Current tax
The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

h. Property, plant and equipment

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

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

Assets costing less than $1,000 are not capitalised, but are expensed.

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

3. Significant accounting policies (continued)

i. Intangible assets

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

Computer software	2.5 years - 5 years

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

Following guidance from IFRIC, 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, it is the Bank's policy to expense all such items as incurred.

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.

3. Significant accounting policies (continued)

k. Provisions (continued)

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

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

l. Financial instruments

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

<u>Financial assets</u>
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.

3. Significant accounting policies (continued)

l. Financial instruments (continued)

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 32e. Any fair value gains or losses are recognised in profit or loss. 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.

- 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.

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 and overlays designed to represent model risk and possible future changes to underwriting risk appetite.

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.

3. Significant accounting policies (continued)

l. Financial instruments (continued)

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.

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.

<u>Investments at amortised cost</u>
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 $403,069 thousand (2021: $396,366 thousand). Details of these assets are included in note 10.

b. Critical sources of estimation uncertainty

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

<u>Provision for impairment of loans and advances</u>
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. and undertakes a probability-weighted assessment, taking account of the probability of default, the loss given default and the exposure at default, including a forward-looking macroeconomic assessment and the use of overlays designed to represent model risk and possible future changes to underwriting risk appetite. (Refer to note 3(l) for further detail).

5. Interest income and interest expense

The following tables show the average balance for each of the major categories of interest-earning assets and interest-bearing liabilities, the amount of interest income or expense and the average effective interest rate:

	Group			Bank		
	2022			2022		
	Average balance $000	Interest amount $000	Average interest rate %	Average balance $000	Interest amount $000	Average interest rate %
Interest-earning assets						
Cash and cash equivalents	113,995	212	0.19	75,312	183	0.24
Investments	395,144	2,333	0.59	395,144	2,333	0.59
Loans and advances	2,552,946	69,978	2.74	2,552,946	69,978	2.74
	3,062,085	72,523	2.37	3,023,402	72,494	2.40
Interest-bearing liabilities						
Borrowings	448,280	4,039	0.90	448,280	4,039	0.90
Deposits	2,404,244	7,789	0.32	2,404,244	7,789	0.32
Lease liabilities	2,696	53	1.97	2,696	53	1.97
	2,855,220	11,881	0.42	2,855,220	11,881	0.42
Net interest income		60,642			60,613	

	Group			Bank		
	2021			2021		
	Average balance $000	Interest amount $000	Average interest rate %	Average balance $000	Interest amount $000	Average interest rate %
Interest-earning assets						
Cash and cash equivalents	106,902	171	0.16	70,096	146	0.21
Investments	338,921	2,154	0.64	338,921	2,154	0.64
Loans and advances	2,408,944	72,041	2.99	2,408,944	72,041	2.99
	2,854,767	74,366	2.60	2,817,961	74,341	2.64
Interest-bearing liabilities						
Borrowings	416,891	4,258	1.02	416,891	4,258	1.02
Deposits	2,247,635	13,663	0.61	2,247,635	13,663	0.61
Lease liabilities	1,202	25	2.08	1,202	25	2.08
	2,665,728	17,946	0.67	2,665,728	17,946	0.67
Net interest income		56,420			56,395	

6. Other income and expenses

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

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Other income				
Dividends	506	41	506	41
Fee income from loan and deposit accounts	370	452	370	452
Other transaction fee income	887	828	887	828
Other service fee income	1,889	1,755	1,889	1,755
Other fee income	4	4	4	4
Insurance commissions	2,019	1,972	2,019	1,972
Other commissions	1,554	1,378	1,554	1,378
Credit losses recovered	75	148	75	148
Other income	957	476	2,898	2,557
	8,261	7,054	10,202	9,135
Personnel expenses				
Employee benefits	22,227	19,562	22,227	19,562
Provision for employee benefits	305	527	305	527
Termination benefits	(108)	531	(108)	531
Other personnel expenses	2,216	1,654	2,216	1,654
	24,640	22,274	24,640	22,274
Depreciation and amortisation expense				
Plant and equipment	247	189	247	189
Buildings and leasehold improvements	954	875	954	875
Computer software	563	680	563	680
Right of use assets	870	1,007	870	1,007
	2,634	2,751	2,634	2,751
Other expenses				
Loss on disposal of property, plant and equipment	8	72	8	72
Occupancy expenses	597	1,282	597	1,282
Information technology expenses	7,791	5,585	7,791	5,585
External financial transaction processing fees and charges	3,834	3,586	3,834	3,586
Telephone expenses	453	439	453	439
Administration expenses	2,592	2,392	2,592	2,392
Marketing and promotion	2,308	2,274	2,308	2,274
Other expenses from ordinary activities	3,400	3,495	3,135	3,226
	20,983	19,125	20,718	18,856

7. Income tax expense

Income tax expenses recognised in profit or loss:

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Current tax expense:				
- in respect of current year	6,304	5,657	6,304	5,657
- in respect of prior year	1	17	1	17
Deferred tax income relating to the origination and reversal of temporary differences	645	335	645	335
Income tax expense	6,950	6,009	6,950	6,009

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

	Group 2022 $000	Group 2021 $000	Bank 2022 $000	Bank 2021 $000
Profit before income tax	23,605	19,933	25,782	22,258
Income tax calculated at 30% (2021: 30%)	7,082	5,980	7,735	6,677
Effect of expenses that are not deductible in determining taxable profit	19	24	949	1,173
Effect of income that is not assessable in determining taxable profit	-	-	(10,125)	(10,531)
Effect of income that is assessable in determining taxable profit	65	5	8,607	8,690
Effect of imputation credits	(217)	(17)	(217)	(17)
Adjustments recognised in the current year in relation to current tax of prior years	1	17	1	17
Income tax expense	6,950	6,009	6,950	6,009

8. Franking credits balance

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

	Group 2022 $000	Group 2021 $000	Bank 2022 $000	Bank 2021 $000
Franking account balance as at the end of the financial year at 30% (2021: 30%)	113,498	104,169	113,498	104,169
Franking credits that will decline from the refund of income tax receivable as at the end of the financial year	(2,245)	(1,441)	(2,245)	(1,441)
	111,253	102,728	111,253	102,728

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

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Cash on hand	2,373	2,446	2,373	2,446
Call deposits with ADIs	77,182	82,995	77,182	82,995
Restricted cash on deposit with ADIs	40,677	32,146	-	-
	120,232	117,587	79,555	85,441
Interest receivable - cash and cash equivalents	37	9	37	9
	120,269	117,596	79,592	85,450

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

	Group and Bank	
	2022 $000	2021 $000
Term deposits with ADIs	19,950	19,950
Negotiable certificates of deposit	136,801	167,835
Floating rate notes	245,636	208,317
	402,387	396,102
Interest receivable - investments	682	264
	403,069	396,366

a. Maturity analysis		
Not longer than three months	108,636	102,442
Longer than three months, not longer than one year	94,471	108,843
Longer than one year, not longer than five years	176,280	169,817
Longer than five years	23,000	15,000
	402,387	396,102

11. Equity investments

Unlisted shares in Cuscal - at FVTPL	5,325	1,639

12. Trade and other receivables

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Other operating receivables [1]	139	143	50,871	40,167
Trade debtors [2]	384	384	384	384
	523	527	51,255	40,551

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 2022 there are no past due or impaired trade and other receivables (2021: Nil).

13. Loans and advances

	Group and Bank 2022 $000	Group and Bank 2021 $000
Overdrafts	3,045	3,684
Credit cards	9,510	9,737
Term loans	2,651,542	2,479,106
Gross loans and advances	2,664,097	2,492,527
Provision for impairment	(1,010)	(329)
Deferred loan fee income	(974)	(947)
Deferred loan origination expenses	4,956	4,815
Net loans and advances	2,667,069	2,496,066

Fee income earned and expenses incurred in the origination of loans and advances are deferred, and are initially recognised as part of the amortised cost of the loan. These amounts are then brought to account as and when the service is provided, generally over the expected life of the loan, and are included as part of net interest income.

	Group and Bank 2022 $000	Group and Bank 2021 $000
a. Contractual maturity analysis		
Overdrafts	3,045	3,684
Not longer than three months	28,576	27,873
Longer than three months, not longer than one year	85,717	83,822
Longer than one year, not longer than five years	427,504	417,334
Longer than five years	2,119,255	1,959,814
	2,664,097	2,492,527
b. Loans by security type		
Mortgage over property		
- Loan to value ratio up to and including 80%	1,969,016	1,751,271
- Loan to value ratio over 80% with mortgage insurance	501,818	550,816
- Loan to value ratio over 80% without mortgage insurance	41,688	45,734
	2,512,522	2,347,821
Mortgage over other assets	96,246	93,247
Unsecured	55,329	51,459
	2,664,097	2,492,527
c. Loans by purpose		
Residential owner-occupied property	2,019,455	1,891,405
Residential investment property	492,532	456,359
Commercial property	535	736
Other	151,575	144,027
	2,664,097	2,492,527
d. Loans by state		
Queensland	828,902	796,817
New South Wales	591,445	559,647
Australian Capital Territory	402,410	350,727
Victoria	309,465	301,385
South Australia	226,996	203,628
Western Australia	220,276	194,692
Northern Territory	64,058	61,901
Tasmania	20,545	23,730
	2,664,097	2,492,527

13. Loans and advances (continued)

e. Loss provision

	Group and Bank 2022 $000	2021 $000
Balance at the beginning of the financial year	329	1,048
Increase/(decrease) in provision on loans and advances	727	(609)
Bad debts written off	(46)	(110)
Balance at the end of the financial year	1,010	329

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loss provision at 1 July 2021	93	80	156	329
Changes in the loss provision				
- Transfer to stage 1	50	(27)	(23)	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	(1)	(25)	26	-
- Loans written off	-	-	(15)	(15)
- Loans discharged	(19)	(8)	(34)	(61)
- Net change in credit risk	50	223	310	583
New loans and advances originated	136	8	30	174
Loss provision at 30 June 2022	309	251	450	1,010

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

Refer to notes 3(l) and 32(d) for the method by which the loss provision is calculated and 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.

14. Property, plant and equipment

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

	Group and Bank 2022				
	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	5,864	3,284	8	9,335
Additions	-	1	26	142	169
Disposals	-	(155)	(235)	-	(390)
Reclassifications	-	265	(215)	(50)	-
Balance at the end of the financial year	179	5,975	2,860	100	9,114
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(3,722)	(1,978)	-	(5,879)
Depreciation expense	-	(954)	(247)	-	(1,201)
Disposals	-	147	82	-	229
Balance at the end of the financial year	(179)	(4,529)	(2,143)	-	(6,851)
Carrying amount at 30 June 2022	-	1,446	717	100	2,263

	Group and 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

[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.

15. Intangible assets

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

	Group and Bank 2022		
	Computer software $000	Work in progress[4] $000	Total $000
At cost			
Balance at the beginning of the financial year	5,731	87	5,818
Additions	-	242	242
Reclassifications	246	(246)	-
Disposals	-	-	-
Balance at the end of the financial year	5,977	83	6,060
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(5,062)	-	(5,062)
Amortisation expense	(563)	-	(563)
Balance at the end of the financial year	(5,625)	-	(5,625)
Carrying amount at 30 June 2022	352	83	435

	Group and 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)	-
Disposals	-	-	-
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

[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.

16. Right of use assets

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

	Group and Bank 2022			
	Buildings $000	Computer equipment $000	Motor vehicles $000	Total $000
At cost				
Balance at the beginning of the financial year	4,266	250	370	4,886
Lease modifications	-	-	-	-
Additions	1,127	290	266	1,683
Balance at the end of the financial year	5,393	540	636	6,569
Accumulated depreciation and impairment				
Balance at the beginning of the financial year	(1,640)	(202)	(279)	(2,121)
Depreciation expense	(680)	(96)	(94)	(870)
Balance at the end of the financial year	(2,320)	(298)	(373)	(2,991)
Carrying amount at 30 June 2022	3,073	242	263	3,578

	Group and 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

Total cash outflows for the year, in relation to lease obligations, are $1,083 thousand (2021: $1,565 thousand). Of this, $138 thousand (2021: $nil) relates to short term leases, and $96 thousand (2021: $160 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:

	Group and Bank		
	2022		
	Opening balance $000	Recognised in profit or loss $000	Closing balance $000
Provisions for employee benefits not yet deductible	1,512	179	1,691
Provision for impairment on loans not yet deductible	100	204	304
Prior year bad debts not yet deductible	79	(79)	-
Property, plant and equipment	492	267	759
Lease expenses not yet deductible	7	22	29
Intangible assets	152	3	155
Other gains not yet assessable	-	(1,106)	(1,106)
Accrued expenses not yet deductible	67	9	76
Prepayments	(5)	(144)	(149)
	2,404	(645)	1,759

	Group and Bank		
	2021		
	Opening balance $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
Other gains not yet assessable	-	-	-
Accrued expenses not yet deductible	67	-	67
Prepayments	(2)	(3)	(5)
	2,739	(335)	2,404

18. Other assets

	Group and Bank	
	2022 $000	2021 $000
Prepayments	2,215	1,233

19. Trade and other payables

	Group and Bank 2022 $000	Group and Bank 2021 $000
Trade creditors	34	15
Other operating payables	616	363
Accrued expenses	2,602	3,580
Accrued capital expenditure	-	509
Unearned commissions	-	150
	3,252	4,617

20. Deposits

	Group and Bank 2022 $000	Group and Bank 2021 $000
Redeemable member shares	428	495
Call deposits	1,460,975	1,203,849
Term deposits	864,810	909,400
Electronic certificates of deposit	196,210	214,302
	2,522,423	2,328,046
Deferred borrowing costs	(35)	(60)
Interest payable - deposits	2,249	2,844
	2,524,637	2,330,830

a. Maturity analysis

	2022 $000	2021 $000
At call	1,461,404	1,204,345
Not longer than three months	429,339	450,394
Longer than three months, not longer than one year	578,876	581,325
Longer than one year, not longer than five years	52,804	91,982
	2,522,423	2,328,046

b. Concentration of deposits

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

21. Lease liabilities

	Group and Bank 2022 $000	Group and Bank 2021 $000
Lease liabilities	3,675	2,787

Maturity analysis

	2022 $000	2021 $000
At call	-	-
Not longer than three months	235	176
Longer than three months, not longer than one year	706	452
Longer than one year, not longer than five years	2,734	2,159
Longer than five years	-	-
	3,675	2,787

22. Borrowings

	Group and Bank 2022 $000	2021 $000
Secured borrowings from the RBA	112,424	112,424
Other secured borrowings (refer to note 29)	322,125	348,933
Floating rate subordinated notes	15,000	15,000
	449,549	476,357
Deferred borrowing costs	(715)	(847)
Interest payable - borrowings	733	369
	449,567	475,879
Maturity analysis		
At call	-	-
Not longer than three months	2,728	3,113
Longer than three months, not longer than one year	8,322	9,620
Longer than one year, not longer than five years	157,851	164,487
Longer than five years	280,648	299,137
	449,549	476,357

Secured borrowings from the RBA consist of borrowings made under the RBA Term Funding Facility (TFF), which provides fixed rate, three year funding to ADIs, secured against high quality collateral. The Group made multiple drawdowns under the TFF, with the last drawdown maturing in June 2024. The $15 million 10 year, non-call 5 year, floating rate subordinated notes were issued on 17th February 2021.

23. Reconciliation of liabilities arising from financing activities

	2021 $000	Cash flows $000	Non-cash $000	2022 $000
Securities sold under agreements to repurchase	112,424	-	-	112,424
Secured borrowings	348,933	(26,808)	-	322,125
Floating rate subordinated notes	15,000	-	-	15,000
Lease liabilities	2,787	(794)	1,682	3,675
Deferred borrowing costs	(847)	(95)	227	(715)
	478,297	(27,697)	1,909	452,509

24. Provisions

	Group and Bank 2022 $000	2021 $000
Provision for employee entitlements	5,645	5,049
Other provisions	12	29
	5,657	5,078
Maturity analysis		
Not longer than one year	5,113	4,608
Longer than one year	544	470
	5,657	5,078

25. Share capital

	Group and Bank	
	2022 $000	2021 $000
Balance at the beginning of the financial year	1,100	1,031
Transfer on redemption of redeemable member shares	67	69
Balance at the end of the financial year	1,167	1,100

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.

26. Reserves

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
a. General reserve				
Balance at the beginning of the financial year	195,777	182,000	203,655	187,553
Transfer from/(to) the general reserve for credit losses	6,026	(78)	6,026	(78)
Transfer from retained earnings	16,588	13,855	18,765	16,180
Balance at the end of the financial year	218,391	195,777	228,446	203,655

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 adjusted for any amounts transferred to/from 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	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Balance at the beginning of the financial year	6,026	5,948	6,026	5,948
Transfer (from)/to the general reserve for credit losses	(6,026)	78	(6,026)	78
Balance at the end of the financial year	-	6,026	-	6,026

The general reserve for credit losses was established in accordance with previous APRA guidance and, at the time, represented 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. During the year, the general reserve for credit losses was reduced to nil, by way of a transfer to the general reserve, in response to revised guidance from APRA which stated that it is no longer required under APS 220.

27. Retained earnings

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Profit from continuing operations after income tax	16,655	13,924	18,832	16,249
Transfers to share capital upon redemption of redeemable member shares	(67)	(69)	(67)	(69)
Transfers to general reserve	(16,588)	(13,855)	(18,765)	(16,180)
Retained earnings at the end of the financial year	-	-	-	-

28. 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:

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Profit for the year from continuing operations	16,655	13,924	18,832	16,249
Add non-cash items				
Net gain on equity investments designated as fair value through profit or loss	(3,686)	-	(3,686)	-
Increase/(decrease) in provision on loans and advances	727	(609)	727	(609)
Amortisation of deferred borrowing costs	227	95	227	95
Depreciation of property, plant and equipment	1,201	1,064	1,201	1,064
Depreciation of right of use assets	870	1,007	870	1,007
Amortisation of intangible assets	563	680	563	680
Decrease/(increase) in assets				
Interest receivable - cash and cash equivalents	(28)	3	(28)	3
Interest receivable - investments	(418)	292	(418)	292
Trade debtors	-	(128)	-	(128)
Prepaid expenses	(982)	(357)	(982)	(357)
Other operating receivables	3	(38)	(10,705)	(1,659)
Deferred tax assets	645	335	645	335
Investments	(6,285)	(66,436)	(6,285)	(66,436)
Overdraft balances	639	67	639	67
Credit card balances	227	(693)	227	(693)
Term loans	(172,596)	(182,781)	(172,596)	(182,781)
Increase/(decrease) in liabilities				
Interest payable - borrowings	364	169	364	169
Interest payable - deposits	(595)	(4,396)	(595)	(4,396)
Trade creditors	19	(2)	19	(2)
Accrued expenses	(1,032)	1,418	(1,032)	1,418
Unearned commissions	(150)	(158)	(150)	(158)
Provision for employee benefits	596	830	596	830
Current tax liabilities	(555)	(313)	(555)	(313)
Other provisions	(17)	9	(17)	9
Redeemable member shares	(67)	(68)	(67)	(68)
Other operating payables	253	(5)	253	(5)
Call deposits	257,126	251,480	257,126	251,480
Term deposits	(44,590)	(115,262)	(44,590)	(115,262)
Electronic certificates of deposit	(18,067)	(5,631)	(18,067)	(5,631)
Add cash flows from investing activities included in operating profit				
Loss on disposal of equipment	8	72	8	72
Net cash provided by/(used in) operating activities	31,055	(105,432)	22,524	(104,728)

29. Securitisation arrangements

a. Integris Securitisation Services Pty Limited (Integris)

In past financial years, the Group had an arrangement with Integris, a wholly owned subsidiary of Cuscal, whereby it acted as an agent to promote and complete loans on its behalf. During the 2014 financial year the scheme was closed to new loan originations. The Group continues to manage the loans portfolio on behalf of Integris, for which it receives a fee. The Group bears no credit risk exposure in respect of these loans and in accordance with its accounting policies does not recognise these loans on its statement of financial position. The securities issued by Integris do not represent liabilities of the Group and the Group does not guarantee the payment of interest or principal on these securities. The Group is not obliged to support any losses by investors in the trust and does not intend to provide such support. The value of loans originated on behalf of Integris during the reporting period is nil (2021: Nil). The balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $5,830 thousand (2021: $7,539 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 $321 million of eligible mortgage receivables were transferred to the DBL Trust Repo Series No. 1 (2021: nil).

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, $78.0 million of eligible mortgage receivables were transferred to the ANZ Warehouse (2021: $98.1 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 22.

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)

30. 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	2022 % owned	2021 % owned
DBL Funding Trust No. 1	Australia	100%	100%

Transactions with controlled entities The following transactions occurred with controlled entities:	**2022** **$000**	**2021** **$000**
Receipts		
Servicer fee	1,617	1,735
Trust manager fee	108	116
Trust administrator fee	216	231
Payments		
Payment of offset interest amounts under terms of trust deed	7,477	7,058

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.

31. Financial commitments

Outstanding loan commitments	**Group and Bank**	
	2022 **$000**	**2021** **$000**
Loans approved but not advanced	109,907	95,676
Amounts available for redraw under term loans	219,706	207,497
Unused balance of revolving credit facilities	42,521	43,385
	372,134	346,558

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. The amounts disclosed in this note do not form part of Loans and advances as presented on the Consolidated statement of financial position.

32. Financial instruments

a. Categories of financial instruments	Group 2022 $000	Group 2021 $000	Bank 2022 $000	Bank 2021 $000
Financial assets				
Cash and cash equivalents	120,269	117,596	79,592	85,450
Financial assets at amortised cost:				
Investments	403,069	396,366	403,069	396,366
Trade and other receivables	523	527	51,255	40,551
Loans and advances	2,667,069	2,496,066	2,667,069	2,496,066
Financial assets at FVTPL:				
Equity investments	5,325	1,639	5,325	1,639
	3,196,255	3,012,194	3,206,310	3,020,072
Financial liabilities				
At amortised cost:				
Borrowings	449,567	475,879	449,567	475,879
Deposits	2,524,637	2,330,830	2,524,637	2,330,830
Trade and other payables	3,252	4,617	3,252	4,617
	2,977,456	2,811,326	2,977,456	2,811,326

b. Financial risk management objectives

The Group is exposed to a number of risks arising from the use of financial instruments in the normal course of its operations. These risks primarily include market risk, credit risk and liquidity risk.

The Group seeks to manage these risks through a series of internal risk reports which analyse exposures by degree and by magnitude of risk. Key measures, which act as proxies for the specific risks, are tracked against pre-established thresholds set by the Board as part of its overarching risk management policy. Compliance with policy and exposure limits is reviewed by the internal auditor on an ongoing basis.

c. Market risk

Market risk is the risk of changes in market prices affecting the Group's income or the value of positions held by the Group. As the Group does not deal in foreign contracts, commodities or equity securities, market risk consists solely of interest rate risk. Interest rate risk is defined as the risk of change in the fair value of future cash flows arising from financial instruments due to variability in interest rates. The Group is exposed to interest rate risk as a result of mismatches between the repricing dates of financial assets and liabilities.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters, whilst optimising return. To this end, the Board has in place a comprehensive market risk policy which establishes a methodology for the calculation, examination and reporting of the interest rate risk position on a regular basis. Management of interest rate risk is vested in the ALLC. The Committee meets regularly to review the interest rate risk position and takes decisions to mitigate identified market risks. Action taken by the ALLC is reported to the Board.

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

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

32. Financial instruments (continued)

The interest rate sensitivity analysis below indicates the sensitivity of the Group's profit and equity to changes in interest rates, and 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. Accordingly, a 100 basis point increase in interest rates compared to actual rates would increase profit and equity by the following amounts.

	Group		Bank	
	2022 $000	2021 $000	2022 $000	2021 $000
Profit after tax	1,630	4,099	1,345	3,875
Equity	1,630	4,099	1,345	3,875

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 over residential property, 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 13b.

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:

32. Financial instruments (continued)

Credit risk exposure - Cash, cash equivalents and investments with other ADIs

		Group		Bank	
Standard & Poor's or equivalent rating		**2022**	**2021**	**2022**	**2021**
Long term	**Short term**	**$000**	**$000**	**$000**	**$000**
AAA to AA-	A1+	241,580	208,718	200,903	176,572
A+ to A-	A1 to A2	140,929	154,097	140,929	154,097
BBB+ to BBB-	A3	140,829	151,147	140,829	151,147
		523,338	513,962	482,661	481,816

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. At 30 June 2022 an ECL assessment was undertaken in relation to cash and investments held with other ADIs, and has been determined to be immaterial (30 June 2021: immaterial).

Credit risk exposure - Loans and advances

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

	Group and Bank 2022			
	Stage 1 $000	**Stage 2 $000**	**Stage 3 $000**	**Total $000**
Overdrafts	2,979	1	65	3,045
Credit cards	9,452	15	43	9,510
Term loans	2,645,794	1,122	4,626	2,651,542
Gross loans and advances	2,658,225	1,138	4,734	2,664,097

	Group and 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

	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Gross loans and advances at 1 July 2021	2,488,497	1,402	2,628	2,492,527
Transfer to stage 1	2,292	(1,222)	(1,070)	-
Transfer to stage 2	(1,145)	1,145	-	-
Transfer to stage 3	(4,333)	(89)	4,422	-
Loans written off	(29)	-	(15)	(44)
Loans discharged	(360,525)	(22)	(1,230)	(361,777)
New loans and advances originated	791,478	10	31	791,519
Other changes	(258,010)	(86)	(32)	(258,128)
Gross loans and advances at 30 June 2022	2,658,225	1,138	4,734	2,664,097

32. Financial instruments (continued)

In arriving at the loss provision for 30 June 2022, the Group undertook probability-weighted assessment, taking account of the probability of default, the loss given default and the exposure at default, including a forward-looking macroeconomic assessment and the use of overlays designed to represent model risk and possible future changes to underwriting risk appetite. In this assessment, consideration was given to the ongoing conflict in Ukraine and the gradual emergence from the COVID-19 pandemic.

It is important to note that the assumptions made in these assessments, and in determining the different possible scenarios, are subject to judgement. The possible scenarios considered in arriving at the 30 June 2022 loss provision are as set out below:

	Best case scenario	Base case scenario	Worst case scenario
Decline in residential property prices	10%	20%	30%
% payout by value for lender's mortgage insurance claims	100%	90%	70%
Probability of occurrence	5%	50%	45%

The effect on profit before tax if the probability of the base case scenario was 100% is set out below.

	2022		2021	
	Group $000	Bank $000	Group $000	Bank $000
Increase in profit and equity	167	167	2	2

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

	Group and Bank	
	2022 $000	2021 $000
Not past due or impaired	2,627,542	2,466,024
Past due but not impaired:		
30 days or less past due	30,683	22,473
31-60 days past due	581	952
61-90 days past due	557	450
More than 90 days past due	-	-
	31,821	23,875
Impaired		
Not past due	3,302	1,874
30 days or less past due	8	-
31-60 days past due	-	-
61-90 days past due	402	-
More than 90 days past due	1,022	754
	4,734	2,628
	2,664,097	2,492,527

For additional disclosures on loans and advances and loss provisions, refer to note 3(l) and note 13.

32. Financial instruments (continued)

e. Liquidity risk

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

The Group manages liquidity risk primarily through adherence to Board policies that require the Group to maintain a minimum percentage of adjusted liabilities as liquid assets at all times. This policy is made with reference to APRA requirements for Minimum Liquid Holdings, as defined under APS 210, and 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 2022 the Minimum Liquid Holdings ratio was 15.3% (2021: 16.6%).

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

	Group and Bank	
	2022 $000	**2021 $000**
Overdraft facility:		
Committed limit	5,000	5,000
Drawn amount	-	-
Total undrawn facilities available	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:

	2022 $000	**2021 $000**
Aaa(sf) rated RMBS	649,647	530,114
Less: pledged as collateral for secured borrowings from the RBA	(168,570)	(180,560)
	481,077	349,554

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.

	Group 2022					
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	-	4,537	13,482	184,246	341,385	543,650
Lease Liabilities	-	235	706	2,734	-	3,675
Deposits	1,461,403	430,833	585,227	54,412	-	2,531,875
Trade and other payables	-	3,252	-	-	-	3,252
	1,461,403	438,857	599,415	241,392	341,385	3,082,452

32. Financial instruments (continued)

	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

	Bank					
	2022					
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	-	4,537	13,482	184,246	341,385	543,650
Lease Liabilities	-	235	706	2,734	-	3,675
Deposits	1,461,403	430,833	585,227	54,412	-	2,531,875
Trade and other payables	-	3,252	-	-	-	3,252
	1,461,403	438,857	599,415	241,392	341,385	3,082,452

	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

32. 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:

	Group			
	Carrying amount		Fair value	
	2022 $000	2021 $000	2022 $000	2021 $000
Financial assets				
Cash and cash equivalents	120,269	117,596	120,269	117,596
Financial assets at amortised cost:				
Investments	403,069	396,366	401,809	397,769
Trade and other receivables	523	527	523	527
Loans and advances	2,667,069	2,496,066	2,650,922	2,499,255
Financial assets at FVTPL:				
Equity investments [6]	5,325	1,639	5,325	1,639
	3,196,255	3,012,194	3,178,848	3,016,786
Financial liabilities				
At amortised cost:				
Borrowings	449,567	475,879	447,093	475,879
Deposits	2,524,637	2,330,830	2,524,459	2,331,415
Trade and other payables	3,252	4,617	3,252	4,617
	2,977,456	2,811,326	2,974,804	2,811,911

	Bank			
	Carrying amount		Fair value	
	2022 $000	2021 $000	2022 $000	2021 $000
Financial assets				
Cash and cash equivalents	79,592	85,450	79,592	85,450
Financial assets at amortised cost:				
Investments	403,069	396,366	401,809	397,769
Trade and other receivables	51,255	40,551	51,255	40,551
Loans and advances	2,667,069	2,496,066	2,650,922	2,499,255
Financial assets at FVTPL:				
Equity investments [6]	5,325	1,639	5,325	1,639
	3,206,310	3,020,072	3,188,903	3,024,664
Financial liabilities				
At amortised cost:				
Borrowings	449,567	475,879	447,093	475,879
Deposits	2,524,637	2,330,830	2,524,459	2,331,415
Trade and other payables	3,252	4,617	3,252	4,617
	2,977,456	2,811,326	2,974,804	2,811,911

[6] Equity investments represents shares in Cuscal Limited (refer to note 11).

32. Financial instruments (continued)

The following tables set out the fair value hierarchy of financial assets and liabilities, as defined in note 3 (b). 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. For equity investments, the last trade price is used as the best estimate of fair value.

	Group			
	Fair value hierarchy as at 30 June 22			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	120,269	-	-	120,269
Investments	-	401,809	-	401,809
Trade and other receivables	-	-	523	523
Loans and advances	-	-	2,650,922	2,650,922
Equity investments	-	5,325	-	5,325
	120,269	407,134	2,651,445	3,178,848
Financial liabilities				
Borrowings	-	-	447,093	447,093
Deposits	-	-	2,524,459	2,524,459
Trade and other payables	-	-	3,252	3,252
	-	-	2,974,804	2,974,804

	Group			
	Fair value hierarchy as at 30 June 21			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	117,596	-	-	117,596
Investments	-	397,769	-	397,769
Trade and other receivables	-	-	527	527
Loans and advances	-	-	2,499,255	2,499,255
Equity investments	-	-	1,639	1,639
	117,596	397,769	2,501,421	3,016,786
Financial liabilities				
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

32. Financial instruments (continued)

	Bank			
	Fair value hierarchy as at 30 June 22			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	79,592	-	-	79,592
Investments	-	401,809	-	401,809
Trade and other receivables	-	-	51,255	51,255
Loans and advances	-	-	2,650,922	2,650,922
Equity investments	-	5,325	-	5,325
	79,592	407,134	2,702,177	3,188,903
Financial liabilities				
Borrowings	-	-	447,093	447,093
Deposits	-	-	2,524,459	2,524,459
Trade and other payables	-	-	3,252	3,252
	-	-	2,974,804	2,974,804

	Bank			
	Fair value hierarchy as at 30 June 21			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	85,450	-	-	85,450
Investments	-	397,769	-	397,769
Trade and other receivables	-	-	40,551	40,551
Loans and advances	-	-	2,499,255	2,499,255
Equity investments	-	-	1,639	1,639
	85,450	397,769	2,541,445	3,024,664
Financial liabilities				
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

33. 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.

34. 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:

	Group and Bank	
	2022 %	2021 %
Common Equity Tier 1 ratio	14.7	14.3
Total Tier 1 Capital ratio	14.7	14.3
Tier 2 Capital ratio	1.0	1.7
Total Capital ratio	15.7	16.0

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.

Full details of the disclosure required under APS 330 Capital Adequacy: Public Disclosure of Prudential Information are provided on the Defence Bank website, at www.defencebank.com.au/tools-and-advice/legal-and-compliance/disclosure-documents/

35. 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:

	2022 $	2021 $
Non executive directors' remuneration:		
Short-term employee benefits	737,225	698,330
Executive management remuneration:		
Short-term employee benefits	3,740,621	3,138,129
Other long-term benefits	57,342	165,830
Termination benefits	-	256,126
	3,797,963	3,560,085
Total key management personnel remuneration:		
Short-term employee benefits	4,477,846	3,836,459
Other long-term benefits	57,342	165,830
Termination benefits	-	256,126
	4,535,188	4,258,415

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.

36. Remuneration of auditors

	Group		Bank	
	2022	2021	2022	2021
	$	$	$	$
Deloitte Touche Tohmatsu				
Audit or review of the financial statements	169,917	126,775	169,917	126,775
Statutory assurance services required by legislation to be provided by the auditor	71,610	58,025	71,610	58,025
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	25,410	-	25,410	-
Other services:				
- Consulting services	15,015	11,000	15,015	11,000
	281,952	195,800	281,952	195,800
Other auditors and their related network firms				
Audit or review of the financial statements	-	-	-	-
Statutory assurance services required by legislation to be provided by the auditor	-	-	-	-
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	186,156	159,309	186,156	159,309
Other services:				
- Tax consulting services	51,442	36,300	51,442	36,300
- Other consulting services	-	-	-	-
	237,598	195,609	237,598	195,609

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.

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 17 October 2022.

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.

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Defence
Bank