Defence Bank

2022-2023 Annual Financial Report.

For a life like no other.

Should you require more details of Defence Bank's financial position, a full copy of the 2022-2023 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 2023. 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 during the year are as below. All the Bank's directors are independent non-executive directors.

Name	Qualifications and Roles	Appointment period
Mr Bruce MURPHY	BSc, MCom, PGD, GAICD. *(Chair of the Governance & Remuneration Committee until 28 November 2022. Chair of the Board from 28 November 2022.)*	Initially appointed to the Board on 5 May 2012. Most recently re-elected to the Board on 28 November 2022.
Ms Frances RAYMOND	BCom, MBA, FCA, FAICD, GDPPM, FSAA. *(Chair of the Board to 28 November 2022.)*	Initially appointed to the Board on 2 December 2010. Resigned from the Board on 28 November 2022.
Ms Anne MYERS	MBA (AGSM), FAICD. *(Chair of the Audit Committee to 28 November 2022. Chair of Governance and Remuneration Committee from 28 November 2022.)*	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, RAAF Jeffrey HOWARD	OAM, FIEAust, CPEng, GAICD, BE, MCom, MA, psc(j). *(Chair of the Audit Committee from 28 November 2022.)*	Initially elected to the Board on 23 November 2020.
Rear Admiral, RAN Ian MURRAY	BA, GradDipHRM, MDefStud, MA, MBA, GAICD, CAHRI, FCILT, psc.	Initially elected to the Board on 21 November 2016. Resigned from the Board 28 November 2022.
Ms Pam REBECCA	BBus(Accy), MBA, GAICD.	Initially elected to the Board on 23 November 2020.
Ms Victoria HARTLEY	BA (Hons), GAICD, FCA.	Initially elected to the Board on 28 November 2022.
Commodore, RAN Letitia VAN STRALEN	MMilLaw, GCDefStatStud, GDLegalPrac, GDMilLaw, BLaws, GAICD.	Initially elected to the Board on 28 November 2022.

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 BARTON	BCom, FFin, FCPA, GAICD. *(Chief Financial Officer.)*	Appointed 23 September 2011.
Ben BEENIE	MBA, FGIA, GAICD. *(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		Gov and Rem.	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
F Raymond	4	4	2	2	3	3	-	-	2	2
B Murphy	10	10	2	2	7	7	-	-	5	5
A Myers	10	10	2	2	3	3	-	-	5	5
J Fitzpatrick	10	9	4	3	7	7	1	1	-	-
J Howard	10	10	4	4	4	4	-	-	-	-
I Murray	4	2	2	2	-	-	-	-	2	2
P Rebecca	10	10	-	-	7	7	-	-	3	3
L Van Stralen	6	6	-	-	-	-	-	-	3	3
V Hartley	6	6	2	2	4	4	-	-	-	-

Principal activities

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

Review of operations

a. Operating profit

During the financial year the Group earned a net profit of $14,478 thousand (2022: $16,655 thousand) after providing $6,222 thousand (2022: $6,950 thousand) for income tax expense.

b. Deposit and lending growth

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

	2023 $000	2022 $000	Increase / (Decrease) $000	Increase / (Decrease) %
Total assets	3,514,479	3,206,505	307,974	9.6
Total deposits	2,748,414	2,524,637	223,777	8.9
Total equity	234,036	219,558	14,478	6.6
Net loans and advances	2,920,442	2,667,069	253,373	9.5
Securitised housing loans (off balance sheet)	-	5,830	(5,830)	(100.0)
Total loans and advances (on and off balance sheet)	2,920,442	2,672,899	247,543	9.3

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 via digital channels. Branches at Bourke Street in Melbourne and Keswick in Adelaide closed in April 2023, aligning with a decline in business carried out at these locations . This was achieved with little disruption to member service, with employees redeployed into other branches and members supported in transitioning to phone and digital channels. During the year the Bank relocated its branch at HMAS Kuttabul to Garden Island with the new location opening for business in June 2023.

d. Partnerships

The Bank has continued to diversify its member base through the Defence Industry Partners Program (DIP). The DIP program offers a range of product and financial wellbeing benefits to employees of organisations that support the ADF. The program has continued to grow with 11 new partnerships entered into during the financial year bringing the total number of partnerships to 27, which collectively cover a workforce of over 16,000 employees. The Bank maintains an active presence in the defence sector through its participation in the Australian Industry Defence Network.

Directors' report

Review of operations (continued)

e. Product development and awards

The Bank continues to improve products and services for members and was proud to win a number of awards throughout the year. This included the WeMoney Defence Services Bank of the Year for a second consecutive year. The prestigious Defence Services Bank of the Year was one of 12 awards Defence Bank won across a range of products. The Bank went back-to-back with three awards, winning Defence Services Bank of the Year, Lender of the Year (Defence Services) Car Loans and Best Low Rate Credit Card for a second straight year. The Bank was also recognised for its personal loans, term deposits, kids accounts, transaction accounts and savings accounts. The banking app also won a Mozo Experts Choice Excellent Banking App award in 2023 being the only customer owned bank to do so, confirming its status as one of Australia's most highly rated banking apps. The Bank also introduced a number of product enhancements included the extension of the National Housing Finance and Investment Corporation (NHFIC) offering to include Regional First Home Buyer Guarantee. Home loan product enhancements included the alignment of minimum loan amount aligned across all products, an extended choice of repayment frequency and the introduction of 40 year loan term for selected borrowers. The Bank continues to be at the vanguard of digital services with the launch of the PayTo payment platform.

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 provides support to the Defence Community Dogs program. Half of the annual fees for this credit card are donated to the Defence Bank Foundation.

g. Digital services

The Bank understands that many of its members are geographically dispersed and has continued to focus on improving its digital experience for our remote members. Central to this is a continued enhancement cycle for the Defence Bank Banking App, resulting in an ongoing rating of 4.7 stars by our members in the Apple App Store and 4.6 stars in Google Play. The Bank has also continued to invest in digital identification and lending processes, resulting in reduced member effort and enhanced security.

h. Community involvement

The Bank has continued to support the defence community through 46 sponsorships across a range of community categories which include things such as ADF sporting clubs, the arts and the community. The Bank continues as a proud supporter of the defence spouse community through the Military Wife podcast, with this year also seeing the continuance 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 with contributions during the financial year totalling $140,617.

i. Employee engagement

Employee engagement was measured at 75% at June 2023 which places the Bank in the top quartile when compared to peer financial services organisations. The Bank recognises the importance of flexibility in the workplace and has provided employees with the tools and support that they need including wellbeing support and learning opportunities to assist employees to build resilience. The Bank also provides growth mindset workshops, leadership coaching and access to its EAP program. In the last financial year the Bank released its new reward and recognition framework, creating opportunities for connection and instilling behaviours that align with the Bank's strategic direction. Employee engagement events such as R U Ok day, the Defence Bank Pinnacle Awards and International Women's Day helped to promote a sense of belonging. The Bank's enhanced Employee Value Proposition has delivered top decile results in pride, belonging, team effectiveness, performance and investing in people.

j. Defence Home Ownership Assistance Scheme (DHOAS)

The Bank has continued to focus on providing eligible defence personnel competitive home loans under this scheme. The scheme was expanded in November 2022 which reduced the minimum service periods for eligibility and removed the current post separation timeframe to allow veterans to access the scheme any time after they leave the ADF. The Bank has experienced a growth in demand for loans under the scheme with the value of DHOAS loans outstanding increasing by 10% over the financial year.

k. Member experience

During the financial year the bank continued to measure member advocacy via the Net Promoter Score (NPS) and Member Effort Score (MES). Achieving a NPS score of +46 and Member Engagement Score (MES) of 84%. This result continues to soundly outperform the major banks. The Bank has also rolled out a new NPS survey based around the initial lending experience which resulted in a NPS of +69 highlighting the improved personal lending digital experience.

Directors' report

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.

Dividends
The only class of share on issue is member shares. Under the terms of the Bank's consitution member shares are not entitled to receive dividends. As such, no dividends have been declared or paid.

Contracts in which directors have an interest
Since 1 July 2022, 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.

B Murphy	J Howard
Chair of the Board	Chair of the Audit Committee
16 October 2023	16 October 2023

Directors' declaration

We, Bruce Murphy and Jeffrey Howard, 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 become due and payable;

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 2023.

B Murphy
Chair of the Board
16 October 2023

J Howard
Chair of the Audit Committee
16 October 2023

Auditor's independence declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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16 October 2023

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

Dear Board Members

Auditor's Independence Declaration to Defence Bank Limited

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

As lead audit partner for the audit of the financial report of Defence Bank Limited for the year ended 30 June 2023, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Lani Cockrem

Lani Cockrem
Partner
Chartered Accountants

Deloitte.

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

Opinion

We have audited the financial reports of Defence Bank Limited (the "Bank") and its subsidiaries (the "Group") which comprise the Group and the Bank's statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information 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 2023 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 2023, 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 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, 16 October 2023

Consolidated statement of profit or loss and other comprehensive income

for the financial year ended 30 June 2023

		Group		Bank	
		2023	2022	2023	2022
	Notes	$000	$000	$000	$000
Income					
Interest income	5	129,048	72,523	128,097	72,494
Interest expense	5	(62,210)	(11,881)	(62,210)	(11,881)
Net interest income		66,838	60,642	65,887	60,613
Net gain on equity investments designated as fair value through profit or loss		-	3,686	-	3,686
Other income	6	8,414	8,261	10,347	10,202
		75,252	72,589	76,234	74,501
Expenses					
Personnel expenses	6	28,839	24,640	28,839	24,640
Depreciation and amortisation expense	6	2,096	2,634	2,096	2,634
(Decrease)/increase in provision on loans and advances	13e	(47)	727	(47)	727
Other expenses	6	23,664	20,983	23,394	20,718
		54,552	48,984	54,282	48,719
Profit before income tax		20,700	23,605	21,952	25,782
Income tax expense	7	6,222	6,950	6,222	6,950
Profit for the year from continuing operations		14,478	16,655	15,730	18,832
Other comprehensive income		-	-	-	-
Total comprehensive income		14,478	16,655	15,730	18,832

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2023

		Group		Bank	
		2023	2022	2023	2022
	Notes	$000	$000	$000	$000
Assets					
Cash and cash equivalents	9	143,044	120,269	109,698	79,592
Investments	10	435,741	403,069	435,741	403,069
Equity investments	11	5,325	5,325	5,325	5,325
Trade and other receivables	12	622	523	45,275	51,255
Loans and advances	13	2,920,442	2,667,069	2,920,442	2,667,069
Property, plant and equipment	14	1,904	2,263	1,904	2,263
Intangible assets	15	162	435	162	435
Right of use assets	16	3,000	3,578	3,000	3,578
Deferred tax assets	17	2,039	1,759	2,039	1,759
Other assets	18	2,200	2,215	2,200	2,215
		3,514,479	3,206,505	3,525,786	3,216,560
Liabilities					
Trade and other payables	19	2,916	3,252	2,916	3,252
Current tax liabilities		316	159	316	159
Deposits	20	2,748,414	2,524,637	2,748,414	2,524,637
Lease liabilities	21	3,150	3,675	3,150	3,675
Borrowings	22	519,134	449,567	519,134	449,567
Provisions	24	6,513	5,657	6,513	5,657
		3,280,443	2,986,947	3,280,443	2,986,947
Net assets		234,036	219,558	245,343	229,613
Equity					
Share capital	25	1,185	1,167	1,185	1,167
Reserves	26	232,851	218,391	244,158	228,446
Retained earnings	27	-	-	-	-
		234,036	219,558	245,343	229,613

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the financial year ended 30 June 2023

	Group 2023				
	Share capital $000	**General reserve for credit losses $000**	**General reserve $000**	**Retained earnings $000**	**Total equity $000**
Balance at 1 July 2022	1,167	-	218,391	-	219,558
Transfer on redemption of redeemable member shares	18	-	-	(18)	-
Profit for the financial year	-	-	-	14,478	14,478
Transfer to general reserve	-	-	14,460	(14,460)	-
Balance at 30 June 2023	1,185	-	232,851	-	234,036

	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 to 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

Consolidated statement of changes in equity

for the financial year ended 30 June 2023

	Bank 2023				
	Share capital $000	General reserve for credit losses $000	General reserve $000	Retained earnings $000	Total equity $000
Balance at 1 July 2022	1,167	-	228,446	-	229,613
Transfer on redemption of redeemable member shares	18	-	-	(18)	-
Profit for the financial year	-	-	-	15,730	15,730
Transfer to general reserve	-	-	15,712	(15,712)	-
Balance at 30 June 2023	1,185	-	244,158	-	245,343

	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 to 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

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the financial year ended 30 June 2023

		Group		Bank	
		2023	2022	2023	2022
	Notes	$000	$000	$000	$000
Cash flows from operating activities					
Interest received		127,119	72,077	126,168	72,048
Fees and commissions received		7,776	7,061	7,776	7,061
Other income received		786	957	2,719	2,898
Dividends received		178	506	178	506
Recoveries on loans previously written off		53	75	53	75
Goods and services tax refunded		868	917	868	917
Interest paid		(45,801)	(11,885)	(45,801)	(11,885)
Payments to suppliers and employees		(53,200)	(48,437)	(52,930)	(48,172)
Tax collected/(paid) on retirement savings accounts		745	(251)	745	(251)
Income tax paid		(7,090)	(6,609)	(7,090)	(6,609)
Cash flows from operating activities before changes in operating assets and liabilities		31,434	14,411	32,686	16,588
Net increase in investments		(30,996)	(6,285)	(30,996)	(6,285)
Net increase in loans and advances		(253,323)	(171,730)	(253,323)	(171,730)
Decrease/(increase) in other operating receivables		36	4	6,115	(10,704)
Net increase in deposits		208,337	194,402	208,337	194,402
(Decrease)/increase in other operating payables		(153)	253	(153)	253
Net cash (used in)/provided by operating activities	28	(44,665)	31,055	(37,334)	22,524
Cash flows from investing activities					
Purchases of property, plant and equipment	14	(393)	(471)	(393)	(471)
Purchases of intangible assets	15	(12)	(242)	(12)	(242)
Net cash used in investing activities		(405)	(713)	(405)	(713)
Cash flows from financing activities					
Net increase/(decrease) in borrowings	23	68,598	(26,903)	68,598	(26,903)
Net decrease in lease liabilities	23	(1,006)	(794)	(1,006)	(794)
Net cash flow from financing activities		67,592	(27,697)	67,592	(27,697)
Net increase/(decrease) in cash and cash equivalents		22,522	2,645	29,853	(5,886)
Cash and cash equivalents at the beginning of the financial year		120,232	117,587	79,555	85,441
Cash and cash equivalents at the end of the financial year	9	142,754	120,232	109,408	79,555

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the financial year ended 30 June 2023

Notes to the financial statements

for the financial year ended 30 June 2023

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 notes 3c and 30. 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 2022, and therefore relevant for the current financial year.

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.*

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.

Notes to the financial statements

for the financial year ended 30 June 2023

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 17 - "*Insurance Contracts*" and AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts,* AASB 2022-1 *Amendments to Australian Accounting Standards – Initial Application* of AASB 17 and AASB 9 – *Comparative Information and* AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*	1 January 2023	30 June 2024
AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	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 and AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants*	1 January 2024	30 June 2025
AASB 2022-5 *Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback*	1 January 2024	30 June 2025

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 16 October 2023.

b. Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

3. Significant accounting policies (continued)

b. Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group is a company of the kind referred to in ASIC Corporations (Rounding in financial/directors' Reports) Instrument 2016/191, dated 24 March 2016. In accordance with that Instrument, amounts in the directors' report and the financial statements are rounded to the nearest thousand dollars, unless otherwise indicated.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank, being the parent entity and its controlled entities. Combined, the Bank and its controlled entities are referred to in these financial statements as the Group. The name 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.

3. Significant accounting policies (continued)

e. Leasing (continued)

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:
- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- 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.

Notes to the financial statements

for the financial year ended 30 June 2023

3. Significant accounting policies (continued)

f. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

g. Taxation

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

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

3. Significant accounting policies (continued)

h. Property, plant and equipment (continued)

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.

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.

Financial assets
All purchases or sales of financial assets are recognised and derecognised on a trade date basis. Purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Classification of financial assets
Financial assets that meet the following conditions are measured subsequently at amortised cost:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset or liability, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Investments at amortised cost
Investments where the Group's objective is to hold the financial assets to collect the contractual cash flows, which are solely payments of principal and interest, are classified as 'Amortised cost'. Amortised cost investments are measured at amortised cost using the effective interest method less any expected credit losses.

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 notes 11 and 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;
- 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.

Notes to the financial statements

for the financial year ended 30 June 2023

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Board are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. Critical judgements in applying accounting policies

The following are critical judgements that the directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements.

Investments at amortised cost
The directors have reviewed the Group's investments at amortised cost in light of its capital maintenance and liquidity requirements and have confirmed the Group's objective to hold these assets with the intention of collecting the contractual cash flows. The carrying amount of investments at amortised cost is $435,741 thousand (2022: $403,069 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. There have been no material changes in the estimation techniques or significant assumptions made in the reporting period ended 30 June 2023.

Provision for impairment of loans and advances
Expected credit losses for loans and advances represent management's best assumptions of losses incurred in the loan portfolio at the end of the reporting period. Management is required to exercise judgement in making assumptions and estimates when calculating the ECL, 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).

Valuation of equity investments
The Group holds an investment in Cuscal shares that are not traded in an active market. As a quoted market price is not available for these shares, judgement is required in measuring their fair value. The Group has determined fair value using the last trade price, which is classed as a level 2 input, as defined in note 3(b).

Notes to the financial statements

for the financial year ended 30 June 2023

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		
	2023			2023		
	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	129,285	3,838	2.97	93,651	2,887	3.08
Investments	432,944	14,257	3.29	432,944	14,257	3.29
Loans and advances	2,797,832	110,953	3.97	2,797,832	110,953	3.97
	3,360,061	129,048	3.84	3,324,427	128,097	3.85
Interest-bearing liabilities						
Borrowings	485,854	15,814	3.25	485,854	15,814	3.25
Deposits	2,650,728	46,332	1.75	2,650,728	46,332	1.75
Lease liabilities	3,367	64	1.90	3,367	64	1.90
	3,139,949	62,210	1.98	3,139,949	62,210	1.98
Net interest income		66,838			65,887	

	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	

Notes to the financial statements

for the financial year ended 30 June 2023

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	
	2023	**2022**	**2023**	**2022**
	$000	**$000**	**$000**	**$000**
Other income				
Dividends	178	506	178	506
Fee income from loan and deposit accounts	562	370	562	370
Other transaction fee income	1,128	887	1,128	887
Other service fee income	1,671	1,889	1,671	1,889
Other fee income	4	4	4	4
Insurance commissions	2,203	2,019	2,203	2,019
Other commissions	1,829	1,554	1,829	1,554
Credit losses recovered	53	75	53	75
Other income	786	957	2,719	2,898
	8,414	8,261	10,347	10,202
Personnel expenses				
Employee benefits	26,220	22,227	26,220	22,227
Provision for employee benefits	672	305	672	305
Termination benefits	2	(108)	2	(108)
Other personnel expenses	1,945	2,216	1,945	2,216
	28,839	24,640	28,839	24,640
Depreciation and amortisation expense				
Plant and equipment	233	247	233	247
Buildings and leasehold improvements	519	954	519	954
Computer software	285	563	285	563
Right of use assets	1,059	870	1,059	870
	2,096	2,634	2,096	2,634
Other expenses				
Loss on disposal of property, plant and equipment	-	8	-	8
Occupancy expenses	558	597	558	597
Information technology expenses	9,140	7,791	9,140	7,791
External financial transaction processing fees and charges	4,233	3,834	4,233	3,834
Telephone expenses	453	453	453	453
Administration expenses	2,817	2,592	2,817	2,592
Marketing and promotion	2,393	2,308	2,393	2,308
Other expenses from ordinary activities	4,070	3,400	3,800	3,135
	23,664	20,983	23,394	20,718

Notes to the financial statements

for the financial year ended 30 June 2023

7. Income tax expense

Income tax expenses recognised in profit or loss:

	Group		Bank	
	2023 $000	2022 $000	2023 $000	2022 $000
Current tax expense:				
- in respect of current year	6,483	6,304	6,483	6,304
- in respect of prior year	19	1	19	1
Deferred tax income relating to the origination and reversal of temporary differences	(280)	645	(280)	645
Income tax expense	6,222	6,950	6,222	6,950

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

	Group 2023 $000	Group 2022 $000	Bank 2023 $000	Bank 2022 $000
Profit before income tax	20,700	23,605	21,952	25,782
Income tax calculated at 30% (2022: 30%)	6,210	7,082	6,585	7,735
Effect of expenses that are not deductible in determining taxable profit	47	19	4,402	949
Effect of income that is not assessable in determining taxable profit	-	-	(16,992)	(10,125)
Effect of income that is assessable in determining taxable profit	22	65	12,284	8,607
Effect of imputation credits	(76)	(217)	(76)	(217)
Adjustments recognised in the current year in relation to current tax of prior years	19	1	19	1
Income tax expense	6,222	6,950	6,222	6,950

8. Franking credits balance

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

	Group 2023 $000	Group 2022 $000	Bank 2023 $000	Bank 2022 $000
Franking account balance as at the end of the financial year at 30% (2022: 30%)	122,755	113,498	122,755	113,498
Franking credits that will decline from the refund of income tax receivable as at the end of the financial year	(2,674)	(2,245)	(2,674)	(2,245)
	120,081	111,253	120,081	111,253

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	
	2023 $000	2022 $000	2023 $000	2022 $000
Cash on hand	2,194	2,373	2,194	2,373
Call deposits with ADIs	107,214	77,182	107,214	77,182
Restricted cash on deposit with ADIs	33,346	40,677	-	-
	142,754	120,232	109,408	79,555
Interest receivable - cash and cash equivalents	290	37	290	37
	143,044	120,269	109,698	79,592

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	
	2023 $000	2022 $000
Term deposits with ADIs	19,950	19,950
Negotiable certificates of deposit	120,277	136,801
Floating rate notes	293,156	245,636
	433,383	402,387
Interest receivable - investments	2,358	682
	435,741	403,069
a. Maturity analysis		
Not longer than three months	127,557	108,636
Longer than three months, not longer than one year	49,480	94,471
Longer than one year, not longer than five years	234,300	176,280
Longer than five years	22,046	23,000
	433,383	402,387

11. Equity investments

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

12. Trade and other receivables

	Group		Bank	
	2023 $000	2022 $000	2023 $000	2022 $000
Other operating receivables [1]	103	139	44,756	50,871
Trade debtors [2]	519	384	519	384
	622	523	45,275	51,255

1 Other operating receivables for the Bank primarily consist of funds in transit 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 2023 there are no past due or impaired trade and other receivables (2022: Nil).

13. Loans and advances

	Group and Bank 2023 $000	Group and Bank 2022 $000
Overdrafts	3,045	3,045
Credit cards	10,198	9,510
Term loans	2,902,267	2,651,542
Gross loans and advances	2,915,510	2,664,097
Provision for impairment	(866)	(1,010)
Deferred loan fee income	(922)	(974)
Deferred loan origination expenses	6,720	4,956
Net loans and advances	2,920,442	2,667,069

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 2023 $000	Group and Bank 2022 $000
a. Contractual maturity analysis		
Overdrafts	3,045	3,045
Not longer than three months	29,361	28,576
Longer than three months, not longer than one year	87,562	85,717
Longer than one year, not longer than five years	440,782	427,504
Longer than five years	2,354,760	2,119,255
	2,915,510	2,664,097
b. Loans by security type		
Mortgage over property		
- Loan to value ratio up to and including 80%	2,172,927	1,969,016
- Loan to value ratio over 80% with mortgage insurance	414,990	501,818
- Loan to value ratio over 80% without mortgage insurance	149,912	41,688
	2,737,829	2,512,522
Mortgage over other assets	112,845	96,246
Unsecured	64,836	55,329
	2,915,510	2,664,097
c. Loans by purpose		
Residential owner-occupied property	2,226,055	2,019,455
Residential investment property	511,187	492,532
Commercial property	588	535
Other	177,680	151,575
	2,915,510	2,664,097
d. Loans by state		
Queensland	925,527	828,902
New South Wales	642,766	591,445
Australian Capital Territory	442,648	402,410
Victoria	344,716	309,465
South Australia	243,241	226,996
Western Australia	226,234	220,276
Northern Territory	65,268	64,058
Tasmania	25,110	20,545
	2,915,510	2,664,097

13. Loans and advances (continued)

	Group and Bank	
	2023	**2022**
e. Loss provision	**$000**	**$000**
Balance at the beginning of the financial year	1,010	329
(Decrease)/increase in provision on loans and advances	(47)	727
Bad debts written off	(97)	(46)
Balance at the end of the financial year	866	1,010

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Loss provision at 1 July 2022	309	251	450	1,010
Changes in the loss provision				
- Transfer to stage 1	190	(83)	(107)	-
- Transfer to stage 2	(1)	6	(5)	-
- Transfer to stage 3	(2)	(55)	57	-
- Loans written off	-	(14)	(56)	(70)
- Loans discharged	(66)	(97)	(122)	(285)
- Net change in credit risk	(250)	56	210	16
New loans and advances originated	132	5	58	195
Loss provision at 30 June 2023	312	69	485	866

	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

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.

Notes to the financial statements

for the financial year ended 30 June 2023

14. Property, plant and equipment

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

	Group and Bank				
	2023				
	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	5,975	2,860	100	9,114
Additions	-	-	111	282	393
Disposals	-	(135)	(75)	-	(210)
Reclassifications	-	167	215	(382)	-
Balance at the end of the financial year	179	6,007	3,111	-	9,297
Accumulated depreciation and impairment					
Balance at the beginning of the financial year	(179)	(4,529)	(2,143)	-	(6,851)
Depreciation expense	-	(519)	(233)	-	(752)
Disposals	-	135	75	-	210
Balance at the end of the financial year	(179)	(4,913)	(2,301)	-	(7,393)
Carrying amount at 30 June 2023	-	1,094	810	-	1,904

	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

[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 2023 Computer software $000	Group and Bank 2023 Work in progress[4] $000	Group and Bank 2023 Total $000
At cost			
Balance at the beginning of the financial year	5,977	83	6,060
Additions	-	12	12
Reclassifications	95	(95)	-
Balance at the end of the financial year	6,072	-	6,072
Accumulated amortisation and impairment			
Balance at the beginning of the financial year	(5,625)	-	(5,625)
Amortisation expense	(285)	-	(285)
Balance at the end of the financial year	(5,910)	-	(5,910)
Carrying amount at 30 June 2023	162	-	162

	Group and Bank 2022 Computer software $000	Group and Bank 2022 Work in progress[4] $000	Group and Bank 2022 Total $000
At cost			
Balance at the beginning of the financial year	5,731	87	5,818
Additions	-	242	242
Reclassifications	246	(246)	-
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

[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 2023			
	Buildings $000	Computer equipment $000	Motor vehicles $000	Total $000
Balance at the beginning of the financial year	3,073	242	263	3,578
Additions	192	-	289	481
Depreciation expense	(793)	(97)	(169)	(1,059)
Balance at the end of the financial year	2,472	145	383	3,000

	Group and Bank 2022			
	Buildings $000	Computer equipment $000	Motor vehicles $000	Total $000
Balance at the beginning of the financial year	2,626	48	91	2,765
Additions	1,127	290	266	1,683
Depreciation expense	(680)	(96)	(94)	(870)
Balance at the end of the financial year	3,073	242	263	3,578

Total cash outflows for the year, in relation to lease obligations, are $1,301 thousand (2022: $1,083 thousand). Of this, $26 thousand (2022: $138 thousand) relates to short term leases, and $205 thousand (2022: $96 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 2023 Opening balance $000	Group and Bank 2023 Recognised in profit or loss $000	Group and Bank 2023 Closing balance $000
Provisions for employee benefits not yet deductible	1,691	253	1,944
Provision for impairment on loans not yet deductible	304	(43)	261
Property, plant and equipment	759	113	872
Lease expenses not yet deductible	29	16	45
Intangible assets	155	(33)	122
Other gains not yet assessable	(1,106)	-	(1,106)
Accrued expenses not yet deductible	76	(26)	50
Prepayments	(149)	-	(149)
	1,759	280	2,039

	Group and Bank 2022 Opening balance $000	Group and Bank 2022 Recognised in profit or loss $000	Group and Bank 2022 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

18. Other assets

	Group and Bank 2023 $000	Group and Bank 2022 $000
Prepayments	2,200	2,215

19. Trade and other payables

	Group and Bank 2023 $000	Group and Bank 2022 $000
Trade creditors	28	34
Other operating payables	463	616
Accrued expenses	2,425	2,602
	2,916	3,252

20. Deposits

	Group and Bank 2023 $000	Group and Bank 2022 $000
Redeemable member shares	409	428
Call deposits	1,410,949	1,460,975
Term deposits	1,155,667	864,810
Electronic certificates of deposit	163,804	196,210
	2,730,829	2,522,423
Deferred borrowing costs	(104)	(35)
Interest payable - deposits	17,689	2,249
	2,748,414	2,524,637
a. Maturity analysis		
At call	1,411,358	1,461,404
Not longer than three months	501,164	429,339
Longer than three months, not longer than one year	709,857	578,876
Longer than one year, not longer than five years	108,450	52,804
	2,730,829	2,522,423

b. Concentration of deposits

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

21. Lease liabilities

	Group and Bank 2023 $000	Group and Bank 2022 $000
Lease liabilities	3,150	3,675
Maturity analysis		
Not longer than three months	266	235
Longer than three months, not longer than one year	806	706
Longer than one year, not longer than five years	2,078	2,734
	3,150	3,675

22. Borrowings

	Group and Bank 2023 $000	Group and Bank 2022 $000
Secured borrowings from the RBA	87,428	112,424
Other secured borrowings (refer to note 29)	415,719	322,125
Floating rate subordinated notes	15,000	15,000
	518,147	449,549
Deferred borrowing costs	(509)	(715)
Interest payable - borrowings	1,496	733
	519,134	449,567

	2023 $000	2022 $000
Maturity analysis		
Not longer than three months	3,129	2,728
Longer than three months, not longer than one year	9,542	8,322
Longer than one year, not longer than five years	140,632	157,851
Longer than five years	364,844	280,648
	518,147	449,549

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. Repayment of the TFF will occur in five tranches, between July 2023 and 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

	2022 $000	Cash flows $000	Non-cash $000	2023 $000
Securities sold under agreements to repurchase	112,424	(24,996)	-	87,428
Secured borrowings	322,125	93,594	-	415,719
Floating rate subordinated notes	15,000	-	-	15,000
Lease liabilities	3,675	(1,006)	481	3,150
Deferred borrowing costs	(715)	-	206	(509)
	452,509	67,592	687	520,788

24. Provisions

	Group and Bank 2023 $000	Group and Bank 2022 $000
Provision for salary incentives	1,586	1,422
Annual leave provision	1,942	1,792
Long service leave provision	2,953	2,431
Provision for fringe benefits tax	32	12
	6,513	5,657
Maturity analysis		
Not longer than one year	5,796	5,113
Longer than one year	717	544
	6,513	5,657

25. Share capital

	Group and Bank 2023 $000	Group and Bank 2022 $000
Balance at the beginning of the financial year	1,167	1,100
Transfer on redemption of redeemable member shares	18	67
Balance at the end of the financial year	1,185	1,167

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	
	2023 $000	2022 $000	2023 $000	2022 $000
Balance at the beginning of the financial year	218,391	195,777	228,446	203,655
Transfer from the general reserve for credit losses	-	6,026	-	6,026
Transfer from retained earnings	14,460	16,588	15,712	18,765
Balance at the end of the financial year	232,851	218,391	244,158	228,446

The 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. 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.

27. Retained earnings

	Group		Bank	
	2023 $000	2022 $000	2023 $000	2022 $000
Profit from continuing operations after income tax	14,478	16,655	15,730	18,832
Transfers to share capital upon redemption of redeemable member shares	(18)	(67)	(18)	(67)
Transfers to general reserve	(14,460)	(16,588)	(15,712)	(18,765)
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	
	2023 $000	2022 $000	2023 $000	2022 $000
Profit for the year from continuing operations	14,478	16,655	15,730	18,832
Add non-cash items				
Net gain on equity investments designated as fair value through profit or loss	-	(3,686)	-	(3,686)
(Decrease)/increase in provision on loans and advances	(47)	727	(47)	727
Amortisation of deferred borrowing costs	206	227	206	227
Depreciation of property, plant and equipment	752	1,201	752	1,201
Depreciation of right of use assets	1,059	870	1,059	870
Amortisation of intangible assets	285	563	285	563
Decrease/(increase) in assets				
Interest receivable - cash and cash equivalents	(253)	(28)	(253)	(28)
Interest receivable - investments	(1,676)	(418)	(1,676)	(418)
Trade debtors	(135)	-	(135)	-
Prepaid expenses	15	(982)	15	(982)
Other operating receivables	36	3	6,115	(10,705)
Deferred tax assets	(280)	645	(280)	645
Investments	(30,996)	(6,285)	(30,996)	(6,285)
Overdraft balances	-	639	-	639
Credit card balances	(688)	227	(688)	227
Term loans	(252,638)	(172,596)	(252,638)	(172,596)
Increase/(decrease) in liabilities				
Interest payable - borrowings	763	364	763	364
Interest payable - deposits	15,440	(595)	15,440	(595)
Trade creditors	(6)	19	(6)	19
Accrued expenses	(177)	(1,032)	(177)	(1,032)
Unearned commissions	-	(150)	-	(150)
Provision for employee benefits	836	596	836	596
Current tax liabilities	157	(555)	157	(555)
Other provisions	20	(17)	20	(17)
Redeemable member shares	(19)	(67)	(19)	(67)
Other operating payables	(153)	253	(153)	253
Call deposits	(50,026)	257,126	(50,026)	257,126
Term deposits	290,857	(44,590)	290,857	(44,590)
Electronic certificates of deposit	(32,475)	(18,067)	(32,475)	(18,067)
Add cash flows from investing activities included in operating profit				
Loss on disposal of equipment	-	8	-	8
Net cash (used in)/provided by operating activities	(44,665)	31,055	(37,334)	22,524

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. Until 7th June 2023, the Group continued to manage the loans portfolio on behalf of Integris, for which it received a fee. The Group retained no credit risk exposure in respect of these loans and in accordance with its accounting policies did not recognise these loans on its statement of financial position. The securities issued by Integris did not represent liabilities of the Group and the Group did not guarantee the payment of interest or principal on these securities. During this time, the Group was not obliged to support any losses by investors in the trust. On 7th June 2023, the Group purchased these loans from Integris at book value, for consideration of $4,465 thousand. This transaction brought the loans on-balance sheet as assets of the Group, with an initial value equal to the consideration paid. At this point, the Group recognised the loans on its statement of financial position, and assumed credit risk exposure to these loans. Following this transaction, the balance of securitised loans within the Integris portfolio as at the end of the reporting period amounted to $nil (2022: $5,830 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 no further eligible mortgage receivables were transferred to the DBL Trust Repo Series No. 1 (2022: $321 million).

Series 2015-1PP was established in December 2015, when 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, $207.6 million of eligible mortgage receivables were transferred to the ANZ Warehouse (2022: $78.0 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, when the Bank transferred $297.6 million of eligible mortgage receivables to Salute Series 2021-1, with $300 million of RMBS issued to third parties (2022: $300 million). 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	2023 % owned	2022 % owned
DBL Funding Trust No. 1	Australia	100%	100%

Transactions with controlled entities The following transactions occurred with controlled entities:	**2023 $000**	**2022 $000**
Receipts		
Servicer fee	1,610	1,617
Trust manager fee	107	108
Trust administrator fee	215	216
Payments		
Payment of offset interest amounts under terms of trust deed	13,969	7,477

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**	
	2023 $000	**2022 $000**
Loans approved but not advanced	85,036	109,907
Amounts available for redraw under term loans	256,861	219,706
Unused balance of revolving credit facilities	41,281	42,521
	383,178	372,134

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 and no ECL is calculated for these commitments.

32. Financial instruments

a. Categories of financial instruments	Group 2023 $000	Group 2022 $000	Bank 2023 $000	Bank 2022 $000
Financial assets				
Cash and cash equivalents	143,044	120,269	109,698	79,592
Financial assets at amortised cost:				
Investments	435,741	403,069	435,741	403,069
Trade and other receivables	622	523	45,275	51,255
Loans and advances	2,920,442	2,667,069	2,920,442	2,667,069
Financial assets at FVTPL:				
Equity investments [6]	5,325	5,325	5,325	5,325
	3,505,174	3,196,255	3,516,481	3,206,310
Financial liabilities				
At amortised cost:				
Borrowings	519,134	449,567	519,134	449,567
Deposits	2,748,414	2,524,637	2,748,414	2,524,637
Trade and other payables	2,916	3,252	2,916	3,252
	3,270,464	2,977,456	3,270,464	2,977,456

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.

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

32. Financial instruments (continued)

c. Market risk (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**	
	2023 $000	**2022 $000**	**2023 $000**	**2022 $000**
Profit after tax	4,512	1,630	4,278	1,345
Equity	4,512	1,630	4,278	1,345

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:

<u>Loans and advances</u>

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 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.

<u>Investments</u>

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)

d. Credit risk (continued)

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

		Group		Bank	
Standard & Poor's or equivalent rating		**2023**	**2022**	**2023**	**2022**
Long term	**Short term**	**$000**	**$000**	**$000**	**$000**
AAA to AA-	A1+	297,152	241,580	263,806	200,903
A+ to A-	A1 to A2	149,805	140,929	149,805	140,929
BBB+ to BBB-	A3	131,828	140,829	131,828	140,829
		578,785	523,338	545,439	482,661

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 2023 an ECL assessment was undertaken in relation to cash and investments held with other ADIs, and has been determined to be immaterial (30 June 2022: 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			
	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$000	**$000**	**$000**	**$000**
Overdrafts	2,978	2	67	3,047
Credit cards	10,124	31	42	10,197
Term loans	2,897,079	284	4,903	2,902,266
Gross loans and advances	2,910,181	317	5,012	2,915,510

	Group and Bank			
	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$000	**$000**	**$000**	**$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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Gross loans and advances at 1 July 2022	2,658,225	1,138	4,734	2,664,097
Transfer to stage 1	2,288	(683)	(1,605)	-
Transfer to stage 2	(82)	312	(230)	-
Transfer to stage 3	(4,038)	(41)	4,079	-
Loans written off	(7)	(16)	(59)	(82)
Loans discharged	(344,424)	(396)	(1,969)	(346,789)
New loans and advances originated	852,342	20	82	852,444
Other changes	(254,123)	(17)	(20)	(254,160)
Gross loans and advances at 30 June 2023	2,910,181	317	5,012	2,915,510

32. Financial instruments (continued)

d. Credit risk (continued)

In arriving at the loss provision for 30 June 2023, 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.

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 2023 loss provision are as set out below:

	Best case scenario	**Base case scenario**	**Worst case scenario**
Decline in residential property prices	0%	10%	20%
% 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.

	2023		**2022**	
	Group $000	**Bank $000**	**Group $000**	**Bank $000**
Increase in profit and equity	69	69	167	167

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	
	2023 $000	**2022 $000**
Not past due or impaired	2,867,247	2,627,542
Past due but not impaired:		
30 days or less past due	42,934	30,683
31-60 days past due	306	581
61-90 days past due	11	557
More than 90 days past due	-	-
	43,251	31,821
Impaired		
Not past due	2,950	3,302
30 days or less past due	1,172	8
31-60 days past due	64	-
61-90 days past due	98	402
More than 90 days past due	728	1,022
	5,012	4,734
	2,915,510	2,664,097

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 2023 the Minimum Liquid Holdings ratio was 15.5% (2022: 15.3%).

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

	Group and Bank	
	2023 $000	**2022 $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:

	2023 $000	**2022 $000**
Aaa(sf) rated RMBS	488,424	649,647
Less: pledged as collateral for secured borrowings from the RBA	(173,870)	(168,570)
	314,554	481,077

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 2023					
Financial liabilities	**At call $000**	**Not at call, not longer than three months $000**	**Longer than three months, not longer than one year $000**	**Longer than one year, not longer than five years $000**	**Longer than five years $000**	**Total $000**
At amortised cost:						
Borrowings	-	8,920	26,547	226,355	583,093	844,915
Lease Liabilities	-	282	846	2,136	-	3,264
Deposits	1,411,358	511,048	736,539	117,148	-	2,776,093
Trade and other payables	-	2,916	-	-	-	2,916
	1,411,358	523,166	763,932	345,639	583,093	3,627,188

Notes to the financial statements

for the financial year ended 30 June 2023

32. Financial instruments (continued)

e. Liquidity risk (continued)

	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

	Bank					
	2023					
Financial liabilities	**At call $000**	**Not at call, not longer than three months $000**	**Longer than three months, not longer than one year $000**	**Longer than one year, not longer than five years $000**	**Longer than five years $000**	**Total $000**
At amortised cost:						
Borrowings	-	8,920	26,547	226,355	583,093	844,915
Lease Liabilities	-	282	846	2,136	-	3,264
Deposits	1,411,358	511,048	736,539	117,148	-	2,776,093
Trade and other payables	-	2,916	-	-	-	2,916
	1,411,358	523,166	763,932	345,639	583,093	3,627,188

	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

32. Financial instruments (continued)

e. Liquidity risk (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	
	2023 $000	2022 $000	2023 $000	2022 $000
Financial assets				
Cash and cash equivalents	143,044	120,269	143,044	120,269
Financial assets at amortised cost:				
Investments	435,741	403,069	435,099	401,809
Trade and other receivables	622	523	622	523
Loans and advances	2,920,442	2,667,069	2,896,537	2,650,922
Financial assets at FVTPL:				
Equity investments [6]	5,325	5,325	5,325	5,325
	3,505,174	3,196,255	3,480,627	3,178,848
Financial liabilities				
At amortised cost:				
Borrowings	519,134	449,567	517,146	447,093
Deposits	2,748,414	2,524,637	2,748,787	2,524,459
Trade and other payables	2,916	3,252	2,916	3,252
	3,270,464	2,977,456	3,268,849	2,974,804

	Bank			
	Carrying amount		Fair value	
	2023 $000	2022 $000	2023 $000	2022 $000
Financial assets				
Cash and cash equivalents	109,698	79,592	109,698	79,592
Financial assets at amortised cost:				
Investments	435,741	403,069	435,099	401,809
Trade and other receivables	45,275	51,255	45,275	51,255
Loans and advances	2,920,442	2,667,069	2,896,537	2,650,922
Financial assets at FVTPL:				
Equity investments [6]	5,325	5,325	5,325	5,325
	3,516,481	3,206,310	3,491,934	3,188,903
Financial liabilities				
At amortised cost:				
Borrowings	519,134	449,567	517,146	447,093
Deposits	2,748,414	2,524,637	2,748,787	2,524,459
Trade and other payables	2,916	3,252	2,916	3,252
	3,270,464	2,977,456	3,268,849	2,974,804

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

32. Financial instruments (continued)

e. Liquidity risk (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 23			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	143,044	-	-	143,044
Investments	-	435,099	-	435,099
Trade and other receivables	-	-	622	622
Loans and advances	-	-	2,896,537	2,896,537
Equity investments	-	5,325	-	5,325
	143,044	440,424	2,897,159	3,480,627
Financial liabilities				
Borrowings	-	-	517,146	517,146
Deposits	-	-	2,748,787	2,748,787
Trade and other payables	-	-	2,916	2,916
	-	-	3,268,849	3,268,849

	Group			
	Fair value hierarchy as at 30 June 22			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	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

32. Financial instruments (continued)

e. Liquidity risk (continued)

	Bank			
	Fair value hierarchy as at 30 June 23			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash and cash equivalents	109,698	-	-	109,698
Investments	-	435,099	-	435,099
Trade and other receivables	-	-	45,275	45,275
Loans and advances	-	-	2,896,537	2,896,537
Equity investments	-	5,325	-	5,325
	109,698	440,424	2,941,812	3,491,934
Financial liabilities				
Borrowings	-	-	517,146	517,146
Deposits	-	-	2,748,787	2,748,787
Trade and other payables	-	-	2,916	2,916
	-	-	3,268,849	3,268,849

	Bank			
	Fair value hierarchy as at 30 June 22			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Cash on hand and on deposit	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

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	
	2023	**2022**
	%	**%**
Common Equity Tier 1 ratio	15.4	14.7
Total Tier 1 Capital ratio	15.4	14.7
Tier 2 Capital ratio	1.1	1.0
Total Capital ratio	16.5	15.7

The increase in the capital ratio has resulted from the adoption of the revised APS 112, which has changed the method by which risk weighted assets are calculated. If the capital position at 30 June 2023 had been calculated under the previous version of APS 112, the total capital ratio would have been 15.2%.

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.

35. Key management personnel

Compensation of key management personnel
Key management personnel during the financial year comprised nine 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:

	2023	**2022**
	$	**$**
Non executive directors' remuneration:		
Short-term employee benefits	751,623	737,225
Executive management remuneration:		
Short-term employee benefits	3,526,072	3,740,621
Other long-term benefits	262,706	57,342
	3,788,778	3,797,963
Total key management personnel remuneration:		
Short-term employee benefits	4,277,695	4,477,846
Other long-term benefits	262,706	57,342
	4,540,401	4,535,188

35. Key management personnel (continued)

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	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Deloitte Touche Tohmatsu				
Audit or review of the financial statements	159,940	169,917	159,940	169,917
Statutory assurance services required by legislation to be provided by the auditor	76,010	71,610	76,010	71,610
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	86,900	25,410	86,900	25,410
Other services:				
- Consulting services	-	15,015	-	15,015
	322,850	281,952	322,850	281,952
Other auditors and their related network firms				
Other assurance and agreed-upon procedures under other legislation or contractual arrangements	229,382	186,156	229,382	186,156
Other services:				
- Tax consulting services	36,053	51,442	36,053	51,442
- Other consulting services	-	-	-	-
	265,435	237,598	265,435	237,598

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 16 October 2023.

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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