

# Annual Report 2018



**Australian  
Military Bank**





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## CHAIRMAN'S ADDRESS



“It is my pleasure to provide you this report having been elected Chairman by the Board in May 2018.”

### Financial Results

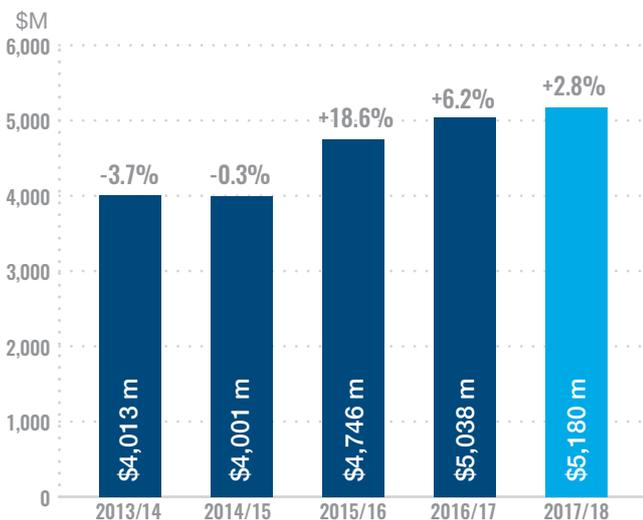
Your Bank concluded the financial year in a very strong position. Australian Military Bank's net profit after tax increased to \$5.2M (up 2.8% on the prior year). As a member owned bank we don't seek to maximise profit rather we seek to generate sufficient surpluses to invest in new services for our members and support future growth.

Due to the ongoing support of members, Australian Military Bank has grown to \$1.35B in total assets (up 7%). Our growth rate compares favourably to the overall banking system growth rate of 1.9%.

The Bank continues to have strong liquidity levels and enjoys depositor support from a wide range of investors. Similarly our capital reserves continue to increase and now exceed \$93M.

Overall, the Board is pleased with this year's financial results especially in light of the significant investments we have made in improving our future readiness.

### Net Profit after Tax



### Operations

Your Bank invested this year in a once in a generation new banking system. The way we deliver services to members today is increasingly through technology like internet banking, mobile banking and through our contact centres. To ensure we could confidently meet members needs for the future we needed to invest in a highly secure but open banking system that integrates with best of breed providers. While there was significant pain and effort in getting this infrastructure in place, members can now increasingly satisfy their banking needs online and in real time. The significantly improved online functionality includes:

- ▶ Card PIN change,
- ▶ The ability to apply for lending and deposit products via digital channels,
- ▶ Increased security via 2 factor authentication,
- ▶ Real time alerts,
- ▶ Budgeting tools, and
- ▶ International payments (via 3rd party).

We are pleased to see greatly increased member take up of our new online services. The number of internet and mobile banking users has increased by over 50% in the six months since going live and mobile app usage has now overtaken internet banking for the first time.

We now have a technology platform that leaves your Bank well placed for the future and readily able to comply with legislative changes like Open Banking. We regret the inconvenience caused to members during the conversion process and we understand many members were satisfied with the services of the old system. However, people were also happy with the typewriter, camera film and video shops but the leading providers of these

types of services are no longer in existence. The Board reached the conclusion that our old business model would not remain competitive and that significant technological investment was required.

Your Bank also invested heavily in increasing our ATM footprint. We now have the largest ATM network on Defence bases with 28 machines across the country providing free cash withdrawals to members. Similarly, our members can now access free ATM services outside the wire at over 10,000 major bank ATM's.

### **Defence Community Involvement**

Your Bank continues to be dedicated to the Defence community.

With the combination of members loose change, matched by the Bank's donations; we have donated over \$100,000 to our Military Rewards Account Charity Partners being Legacy, Mates4Mates, RSL DefenceCare and SoldierOn. These contributions provide much needed assistance for our current and former service men and women.

We continued to support the Australian Defence Force Australian Rules (ADFAR) Association's goals of encouraging and promoting sport among the Australian Defence Community and as such the Bank was once again proud to be a major sponsor of this year's ADFAR games.

Your Bank also supported the White Ribbon cause by holding fund raising golf days at Duntroon, Wagga and Cerberus. White Ribbon is a global movement of men and boys to end violence against women and girls. Our fund raising and profile raising events are aimed at helping end domestic violence.

### **Recent Developments**

The Hayne Royal Commission, also known as the Banking Royal Commission, has highlighted a litany of misconduct by certain listed banks, superannuation funds and insurers. We are very pleased that no mutual banks have been called before the Royal Commission and there have been no findings against mutually owned banks. Hayne's preliminary findings highlighted greed, conflicts of interest and the relentless drive for profit as direct drivers of the misconduct leading to a failure to

meet community expectations. Australian Military Bank remains committed to the mutual ownership model where our members are our shareholders and our primary focus.

It was with deep sadness that we shared with our community the passing of our dear and respected colleague Bill Hardman. Bill joined us recently as the Area Manager of the Riverina and tragically passed away on Tuesday the 14th August in a traffic accident. On behalf of the Bank, we extended our deepest condolences to his family & friends. He will be remembered as an amazing dad, a hard worker and is in our thoughts.

Finally, and in more positive news, your Bank was proud to be fundraising in aid of the Invictus Games Sydney 2018. The Invictus Games is an international sporting event for wounded, injured and ill veterans and active service personnel. The Invictus Games highlights the power of sport to inspire recovery, support rehabilitation and generates a wider understanding of and respect for those who serve our country.

### **Acknowledgement and Thanks**

We never take for granted the support we receive from Defence as our host. We continue to offer a wide range of financial services to Defence personnel on base and are pleased to remain a DHOAS home loan provider. Similarly, we appreciate the opportunity to serve members of the RSL across Australia via our RSL Money offering.

I'd also like to welcome the three new directors who recently joined the Board. As a democratic member owned bank, our members will confirm their appointment at our upcoming AGM. They have all been assessed as fit and proper persons and bring significant knowledge and experience to the Board.

In doing so, I acknowledge and thank the outgoing directors Jane Spalding and Clint Thomas for their many years of service to our members. Your contributions to Australian Military Bank over many years are greatly appreciated. I also thank Donna Hardman for her contributions during her 7 months as a director.

## CHAIRMAN'S ADDRESS CONTINUED

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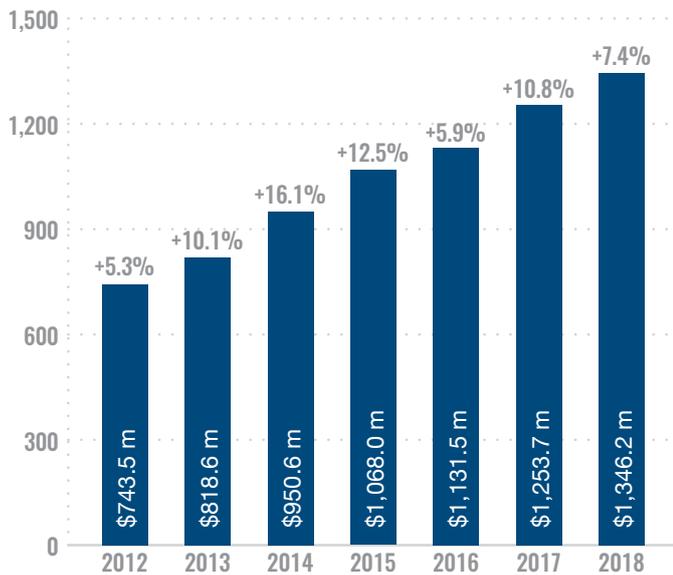
Our staff have worked extremely hard this year to position the Bank well for the future. While our system transformation was not without difficulties, it was achieved in very good time and at a cost that was affordable for our Bank. I'd like to extend the Board's thanks to all our staff for working hard to service our members throughout the year.

Finally, and most importantly, I'd like to thank you our members for your continued support of Australian Military Bank. Your Bank remains financially strong and well positioned for the future. We look forward to serving you well into the future.



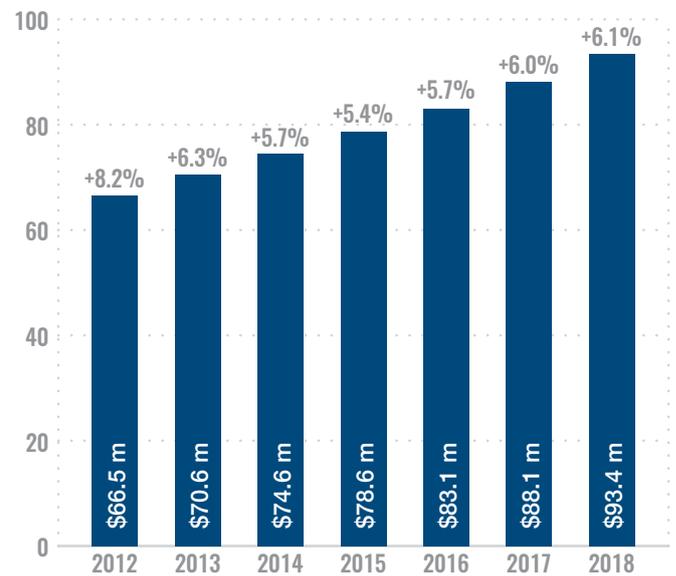
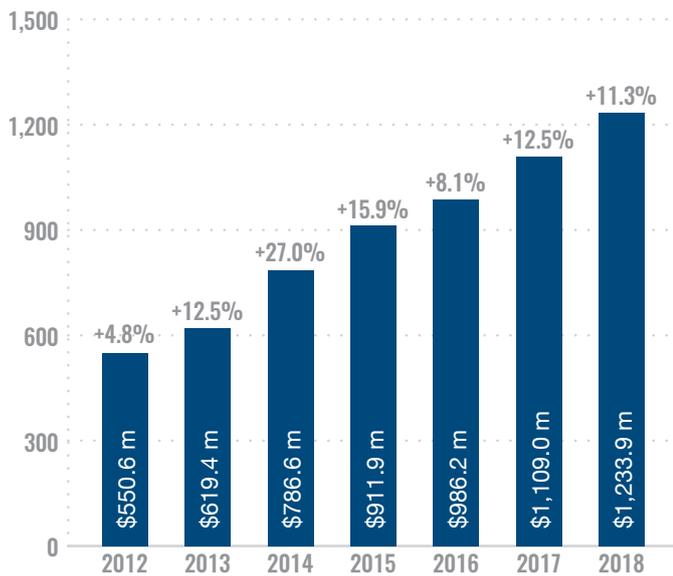
**John Brooks**  
Chairman

## KEY PERFORMANCE MEASURES



### Balance Sheet Assets

### Net Balance Sheet Loans



### Deposits

### Member's Equity

# Directors' report



## 2018 OFFICE BEARERS



**Board of Directors as at 30 June 2018 (L to R):** BRIG Jane Spalding AM, Bruce Scott CSC, RADM Clinton Thomas AM, CSC, RANR, John Brooks, Graham Weber, Jodie Hampshire.

### John Robert Brooks

Director of Australian Military Bank from  
13 November 2003

#### Qualifications

Bachelor of Arts  
Graduate of the Royal Air Force Staff College  
Graduate of the Australian Defence College

#### Experience and Responsibilities

Mutual Bank Director for 18 years  
28 years in the RAAF Logistics Branch  
12 years owner of a small business  
Chairman of the Australian Military Bank Board  
Member of the Remuneration Committee  
Member of the Risk Committee  
Past Chair of the Risk Committee  
Past Chair of the Audit Committee

### Rear Admiral Clinton William Thomas AM, CSC, RANR

Director of Australian Military Bank from 13 November  
2003 to 30 June 2018

#### Qualifications

Graduate RAN College and RAN Staff College  
Member of the Australasian Mutuals Institute  
Member of the Risk Management Institute  
of Australasia  
Associate Member of the Australian Institute of  
Project Management  
Graduate Member of the Australian Institute of  
Company Directors  
Fellow of the Chartered Institute of Logistics and  
Transport Australia  
Diploma Applied Science (UNSW) Diploma  
Company Directors  
Diploma of Government (Contract Management)  
Advanced Diploma of Government (Strategic  
Procurement)  
Advanced Diploma of Project Management  
Graduate Diploma of Resource Management

Master of Management (Operations/Logistics) (MGSM)

### Experience and Responsibilities

Mutual Bank Director for 18 years

40 years in the Royal Australian Navy and Defence

Former Commander Joint Logistics Command (2013-15)

Past President and Patron of the RAN Australian Football Association (combined 13 years)

Past Chair/Trustee of the RAN Relief Trust Fund Board (5 years)

Past Chair of the Navy Canteens Board (3 years)

Member of the Australian Military Bank Renewal Committee

Member of the Australian Military Bank Remuneration Committee

Former Chair of the Australian Military Bank Governance Committee

Former Chair of the Australian Military Bank Board

### Michael Crane DSC & Bar, AM

Director of Australian Military Bank since 1 July 2018

#### Qualifications

Graduate Member Australian Institute of Company Directors

Graduate Mt Eliza General Management Program

Graduate Harvard Club of Australia Leadership Program

Master of Arts (Strategic Studies)

Graduate Diploma in Defence Studies

Bachelor of Science (Honours)

Graduate United Kingdom Higher Command and Staff Course

Graduate Centre for Defence and Strategic Studies

Graduate Joint Services Staff College

Graduate Army Command and Staff College

#### Experience and Responsibilities

Member Australian Military Bank Risk Committee

Member Australian Military Bank Renewal Committee

Member Serco Asia Pacific Advisory Board

Director The Order of Australia Association

Chair The Order of Australia Association (ACT Branch)

President United Services Institute of the ACT

37 years in the Australian Army including two tours commanding Australian Forces in the Middle East

### Sean Patrick FitzGerald

Director of Australian Military Bank from 25 May 2018

#### Qualifications

Graduate Member of the Australian Institute of Company Directors

Certificate IV Finance and Mortgage Broking

Diploma Finance and Mortgage Broking

Member of the MFAA

#### Experience and Responsibilities

Australian Military Bank Director for 4 months

Director of P&N Bank Financial Planning for 4 years

20 years in retail banking with P&N Bank, NAB, CBA and First Australian Building Society

Chair of Australian Military Bank Remuneration Committee

Member of the Australian Military Bank Audit Committee

### Jodie Marie Hampshire, CFA

Director of Australian Military Bank from 1 July 2015

#### Qualifications

Bachelor of Commerce

CFA Charterholder

Graduate Australian Institute of Company Directors

#### Experience and Responsibilities

15 years in Investment Management and Investment Consulting. Experience across three countries in strategy, business financials,

organisational design, HR, legal, compliance and business management.

5 years as Founder and Director of own business

Managing Director, Australia for Russell Investments with responsibility for a team of professionals who deliver investment and superannuation services to clients with total assets of over \$30 billion.

Mutual Bank Director for 3 years

Chair of Australian Military Bank Risk Committee

### **Donna Hardman (MBA BCom GAICD FAMI FGIA)**

**Director of Australian Military Bank from 1 July 2017 to 12 February 2018**

#### **Qualifications**

University of NSW - BCom, Marketing & Finance

Macquarie University Graduate School of Business - MBA Leadership

University of Adelaide – Cavendish RG146 SMSF Accreditation Course

#### **Experience and Responsibilities**

Non Executive Director of Villa World

Consultant & Managing Director of Quadrant 2 Consulting

Fellow of the Australasian Mutuals Institute

Affiliate Member of the SMSF Professionals Association of Australia

Past Non Executive Director of Quay Credit Union

Past Head of SMSF Strategy & Implementation, AMP

Past Director of undreamwedream

Past Consultant to Members Equity Bank

Graduate of the Australian Institute of Company Directors

Past Chairman of the Australian Institute of Company Directors

Last year participated in the Women Leaders Mission to Israel

Lead a 2018 Women's Trade Mission to China

Past member of the Australian Military Bank Audit Committee

Past member of the Australian Military Bank Renewal Committee

### **Jonathan Sadleir AM**

**Director of Australian Military Bank since 1 July 2018**

#### **Qualifications**

Principle Warfare Officer Surface Warfare

Principle Warfare Officer Advanced Navigation and Nuclear endorsed Naval Pilot

Bachelor of Arts in History

Graduate Diploma in Management

Graduate Diploma in Maritime Management & Logistics

Graduate Certificate in International Maritime Studies

Australian Command & Staff Course

MBA – Maritime Logistics and Port Management

Selected as the Australian representative to attend the Royal College of Defence Studies, United Kingdom – Grand Strategy & Wicked Problem Resolution

#### **Experience and Responsibilities**

COO of Secora

Former Commodore in the Royal Australian Navy

Chief of Staff to Navy Strategic Command

Commissioning Commanding Officer of HMAS Canberra

Director Navy Continuous Improvement

Commanding Officer of HMAS Parramatta

Deputy Director Global Military Commitment for the Vice Chief of Defence Force – Chief of Joint Operations

Honoured by the Governor General with a Commendation for Distinguished Service in Warlike Operations

Member of the Order of Australia

Member of the Australian Institute of Company Directors

Industry experience in Defence, Government, Infrastructure and Complex Asset Management –

Mining, Infrastructure, Navy, Maritime Infrastructure and Joint Environments

Member of the Australian Military Bank Risk Committee

Member of the Australian Military Bank Remuneration Committee

### **Bruce Andrew Robert Scott, CSC**

Director of Australian Military Bank from 13 November 2013

#### **Qualifications**

Graduate Member of the Australian Institute of Company Directors

Graduate of Command and Staff College

Member of the Australasian Mutuals Institute

#### **Experience and Responsibilities**

Mutual Bank Director for 5 years

40 years service and experience in the Australian Army

Chair of Australian Military Bank Audit Committee

Chair of the Australian Military Bank Renewal Committee

Director Shooting Australia

Chairman North Queensland Rifle Association

### **Brigadier Jane Maree Spalding AM**

Director of Australian Military Bank from 12 July 2007 to 30 June 2018

#### **Qualifications**

Bachelor of Social Science (Human Resource Development)

Master of Arts (Military Studies)

Master of Defence Studies

Master of Arts (Strategic Studies)

Graduate of the Royal Military College of Science (United Kingdom)

Graduate of the Australian Army Command and Staff College

Graduate of the Centre for Defence and Strategic Studies

Graduateship of the City and Guilds of London Institute

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Management

Graduate Member of the Australian Institute of Company Directors

#### **Experience and Responsibilities**

Mutual Bank Director for 11 years

35 years in the Australian Regular Army

Deployed on Operation HIGHROAD with effect August 2018

Former Head of Corps Royal Australian Army Ordnance Corps

Former Chair of the Australian Military Bank Audit Committee

Chair of the Remuneration Committee

Previously a member of the TAFE Riverina Institute Advisory Council

### **Graham Anthony Weber**

Director of Australian Military Bank from 1 September 2008

#### **Qualifications**

Fellow Australian Society of Certified Practising Accountants (FCPA)

Bachelor of Commerce in Accounting

Member of INSTIL

Member Australian Institute of Company Directors

#### **Experience and Responsibilities**

6 years in Accounting Firms and Advisory Services

24 years in State and Commonwealth Agencies in Financial Management, budgeting and performance reporting

Currently Chief Finance Officer – Air Force

Mutual Bank Director for 10 years

Member of the Australian Military Bank Audit Committee

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Deputy Chair of the Australian Military Bank Board

Member of the Australian Military Bank

Executive Committee

## **CEO AND COMPANY SECRETARY**

### **John Ronald Ford**

#### **Qualifications**

Graduate of the Australian Institute of Company Directors (GAICD)

Bachelor of Arts

Graduate Diploma of Business Studies

Fellow of INSTIL

Advanced Diploma of Superannuation

Member of the Association of Superannuation Funds of Australia Limited

Experience and Responsibilities

Chief Executive Officer – Australian Military Bank

29 years management experience in Banks, Building Societies and Credit Unions

Company Secretary from 28 January 2014

Director of Shared Lending Pty Ltd

Grazier

### **Joa de Wet**

#### **Qualifications**

Chartered Accountant

Experience and Responsibilities

Over 21 years experience in Financial Services

Head of Finance at Australian Military Bank since January 2017

Company Secretary from 2 February 2017

## MEETINGS ATTENDED

	BOARD COMMITTEE MEETINGS													
	Board Meetings		AGM		Board Governance		Audit		Risk		Renewal		Remuneration	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
John Brooks	11	10	1	1	3	3	-	-	5	5	1	1	2	2
Michael Crane <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sean FitzGerald	1	1	-	-	-	-	1	1	-	-	-	-	-	-
Jodie Hampshire	11	10	1	1	-	-	-	-	5	5	-	-	1	1
Donna Hardman <sup>(1)</sup>	8	8	1	1	6 (part)	6 (part)	4	4	-	-	1	1	-	-
Jonathan Sadleir <sup>(2)</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bruce Scott	11	10	1	1	-	-	7	5	-	-	2	2	-	-
Jane Spalding	11	11	1	1	-	-	-	-	5	4	-	-	2	2
Clinton Thomas	11	11	1	1	9	8	-	-	-	-	3	2	1	1
Graham Weber	11	10	1	1	10	10	7	6	-	-	-	-	-	-

H – No. of meetings held that Director was eligible to attend

A – No. of meetings attended

(1) Board of Director from 01 July 2017 to 12 February 2018.

(2) Board of Director from 01 July 2018.

## DIRECTOR BENEFITS

Directors are required to make an annual declaration of any benefits or interests that may have occurred because of their association with Australian Military Bank. As at 30 June 2018, Directors have received total remuneration of \$408,187 (2017 \$418,517) during the financial year.

## INDEMNITY OF DIRECTORS AND OFFICERS

Australian Military Bank has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in

respect of Directors' and Officers' liability and legal expenses, as such disclosure is prohibited under the insurance contract.

## PRINCIPAL ACTIVITIES

The principal activities of Australian Military Bank during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

## OPERATING AND FINANCIAL REVIEW

### Operating Results

The total comprehensive income of Australian Military Bank for the year after providing for income tax was \$5.4 million [2017 \$5 million].

### Review of Operations

The results of Australian Military Bank's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

### Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of Australian Military Bank.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of the affairs of Australian Military Bank during the year.

### EVENTS OCCURRING AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of Australian Military Bank in subsequent financial years.

### LIKELY DEVELOPMENTS AND RESULTS

No matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:

- ▶ the operations of Australian Military Bank;
- ▶ the results of those operations; or
- ▶ the state of affairs of Australian Military Bank in the financial years subsequent to this financial year.

### AUDITORS' INDEPENDENCE

The auditors have provided the declaration of independence to the Board as prescribed by the *Corporations Act 2001* as set out on page 20.

### ROUNDING

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations Instrument 2016/191. Australian Military Bank is permitted to round to the nearest one thousand (\$'000) for all amounts except prescribed disclosures which are shown in whole dollars.

### BOARD RESOLUTION

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



**John Robert Brooks**

Chairman

24 October 2018



**Graham Anthony Weber**

Deputy Chairman

24 October 2018

## DIRECTORS' DECLARATION

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In the opinion of the Directors of Australian Military Bank Limited:

1. The financial statements and notes of Australian Military Bank Limited and its controlled entities are in accordance with the *Corporations Act 2001*, including
  - (a) giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
  - (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. There are reasonable grounds to believe that Australian Military Bank Limited will be able to pay its debts as and when they become due and payable.
3. The financial statements comply with International Financial Reporting Standards as stated in Note 1.

Signed in accordance with a resolution of the directors:



**John Robert Brooks**  
Chairman

24 October 2018

# Easy to do banking with

Our banking services provide our members convenient access to their daily banking needs. Our 24/7 omni channel platforms allow our members to bank on the go with ease of access to ATMs and branches on base for Defence personnel.



rediATM Network (left to right): Kapooka, Lavarack, Robertson, Enoggra.

## OUR ATM NETWORK

Re-enforcing our commitment to the Defence, Australian Military Bank has acquired a further 15 on base ATMs; extending our physical presence on military bases, totalling to 28 Australian Military Bank ATMs overall.

This is in addition to Australian Military Bank earlier this year exiting the rediATM scheme

and complimented the extended fleet of ATMs which are now fee-free for Australian Military Bank members.

With the move by the major banks to remove withdrawal fees from their ATMs, Australian Military Bank members now access over 10,000 fee-free ATMs.



## GARDEN ISLAND BRANCH OPENING

We officially opened our refurbished Fleet Base East (Garden Island) branch in September, 2017. Upgrading the space into a digitally enhanced branch has boasted a new plan including internet banking kiosks. Our Garden Island branch in Sydney holds a special significance at Australian Military Bank as we have been operating in this base for over 58 years.

Image: Australian Military Bank CEO John Ford celebrating our official re-opening with HMAS Kuttabul's XO LCDR Barry Purkiss.

# Modern with our services

In line with your digital journey, we have upgraded our digital channels to stay current with our members' banking expectations. The new service offerings remain member focused by delivering innovation, upgrading security and adding new tools and functionality.

## INTERNET BANKING

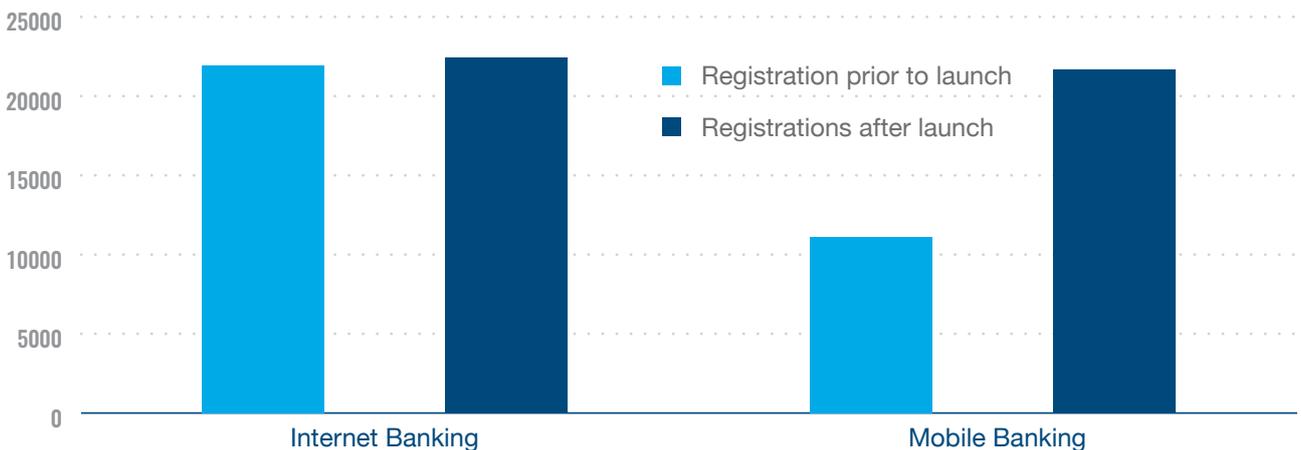
As the new system required our members to re-register on our online platforms, members had the opportunity to experience a refreshed layout with added features. This included budgeting tools and calculators, PIN change and card activation, real time alerts as well as offers and online account openings.



## MOBILE BANKING

Our new Mobile Banking App required members to re-install the newest version which delivered a cleaner, sophisticated look with added features to accommodate banking needs. With 24/7 global access to accounts, the app provides a secure and convenient way to bank on the move.

## REGISTRATION VOLUMES – CHANNEL REGISTRATIONS



# Dedicated to the Defence Community

We believe in giving back. Australian Military Bank supports the defence community and affiliated causes through various events and initiatives.

Australian Military Bank are proud to have donated over **\$100,000** to our Defence Charity partners with the help of your spare change each month.

On behalf of our charity partners, we want to take the opportunity to thank our Military Rewards Account holders who helped achieve such a milestone.

It's through these contributions that we can continue to provide much needed assistance to our current and former service men and women.

Thank you, from Australian Military Bank!

## What's a Military Rewards Account?

Our Military Rewards Account is:

- ▶ The perfect everyday transaction account that features 1% cash back (with a \$25 monthly cap);
- ▶ Free Australian Military Bank ATM withdrawals;
- ▶ Cents gifting program in support of the Defence community;
- ▶ No fees with a \$2,000 minimum monthly deposit.

To date, we've matched our members' loose change and donated

# OVER \$100,000

to our Charity partners since inception of the Military Rewards Account!





## ADFAR

The Australian Defence Force Australian Rules (ADFAR) Association encourages and promotes the sport of Aussie Rules among ADF members. Australian Military Bank has been a major corporate sponsor for ADFAR since 2001. We aim to support ADFAR's goals of encouraging and promoting the sport of Aussie Rules amongst the Australian Defence Force members.

Image: 2018 ADFAR Players and officials. Photographed by Steve McNeil.



## DCO DAYS

Australian Military Bank supports Defence Community Organisation (DCO) Days through January to March each year across Australia. We aim to welcome new Defence members and their families, providing information on our services and support within their local area.

Image: WA Area Manager Namrata Rai at HMAS Stirling for DCO Day.

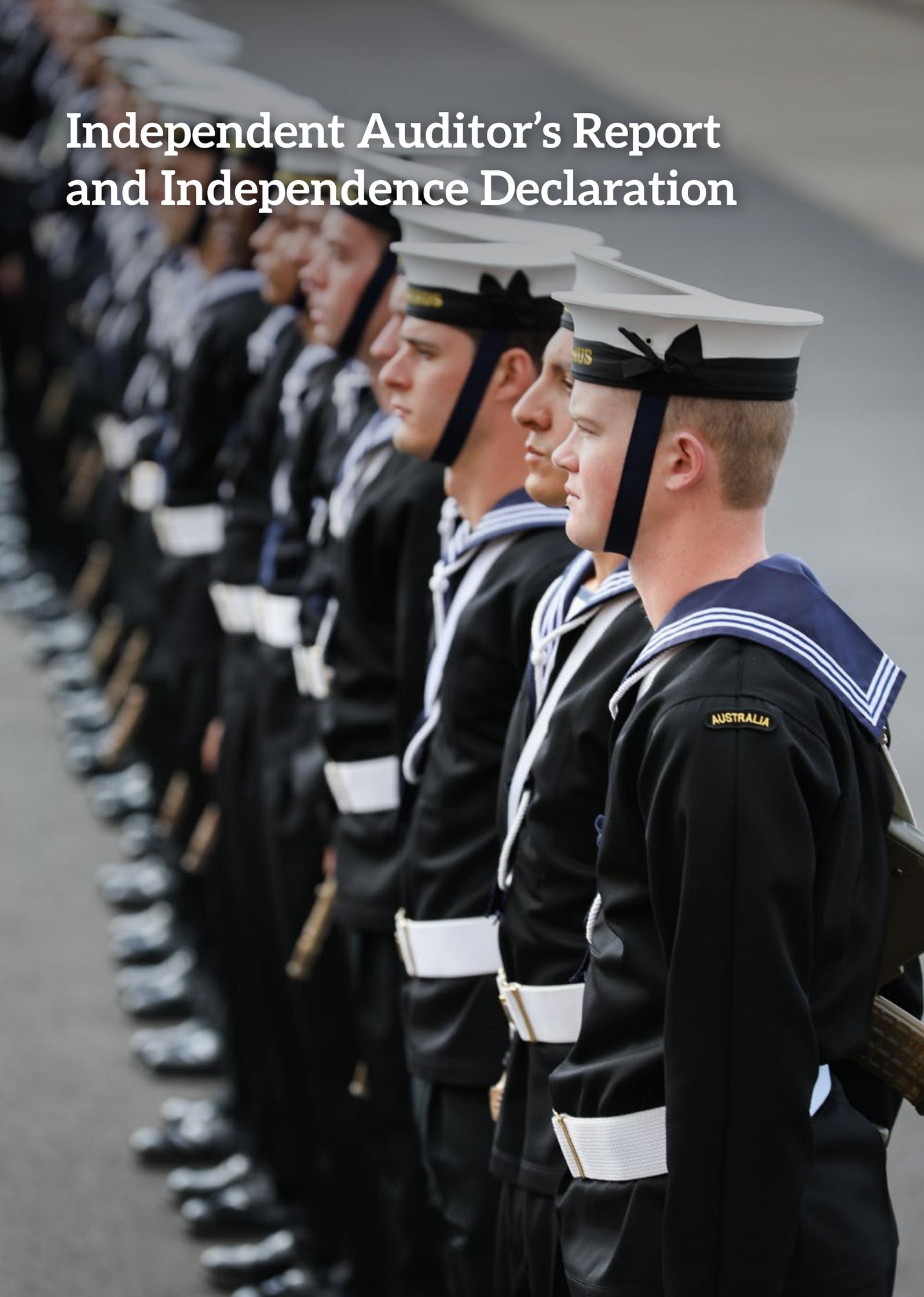
## WHITE RIBBON GOLF DAYS

White Ribbon aims to ensure the lives of women remain safe and free from abuse, as well as encourage men to ensure a woman's safety becomes a man's issue too. Each year, Australian Military Bank host White Ribbon Golf Days in promoting awareness for domestic violence against women by raising money via auctions and hosting golfing competition events.

Image: ACT & South Coast Regional Manager Andrew Moebus and Australian Military Bank Deputy Chairman Graham Weber presenting the 2017 White Ribbon cheque to White Ribbon Ambassadors GPCAPT Ernie Walsh and CMDR Rod Harrod.



# Independent Auditor's Report and Independence Declaration





# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Military Bank Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Military Bank Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Brendan Twining

Partner

Sydney

24 October 2018



# Independent Auditor's Report

To the Members of Australian Military Bank Limited

## Opinions

We have audited the **Financial Report** of Australian Military Bank Limited (the Company) and the **Financial Report** of the Group.

In our opinion, the accompanying Financial Report of the Company and the Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group** and **Company's** financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Company and the Group comprises the:

- Statement of financial position as at 30 June 2018;
- Statement of profit or loss and other comprehensive income, Statement of changes in members' equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Australian Military Bank Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

## Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Report* section of our report.

We are independent of the Group and Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Other Information

Other Information is financial and non-financial information in Australian Military Bank Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.



In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- 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 opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 Report.

A further description of our responsibilities for the audits of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our Auditor's Report.

KPMG

Brendan Twining

Partner

Sydney

24 October 2018

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated and Parent	
		2018 \$'000	2017 \$'000
Interest revenue	2(a)	54,899	50,322
Interest expense	2(c)	(26,624)	(24,811)
<b>Net interest income</b>		<b>28,275</b>	<b>25,511</b>
Fee commission and other income	2(b)	6,270	8,136
Gain/ (loss) from Available for Sale (AFS) securities		580	–
Net operating income before expenses		35,125	33,647
<b>Operating Expenses</b>			
Impairment losses/ (gains) on loans to members	2(d)	1,547	(23)
Fee and commission expenses		4,608	4,498
General administration expenses			
– Employees compensation and benefits		12,492	12,863
– Other administration		2,879	2,577
– Information technology		2,204	2,341
– Office occupancy		1,443	1,393
– Depreciation and amortisation	2(e)	747	608
Other operating expenses		1,732	1,792
Total operating expenses		27,652	26,049
<b>Profit before income tax</b>		<b>7,473</b>	<b>7,598</b>
Income tax expense	3	2,293	2,560
<b>Profit after income tax</b>		<b>5,180</b>	<b>5,038</b>
<b>Other comprehensive income, net of income tax</b>			
Items that will be reclassified subsequently to profit or loss			
Losses on cash flow hedges taken to equity Items		(41)	(38)
Change in fair value of AFS securities (net of tax)		396	–
Gains/(losses) from AFS Securities recycled to profit or loss		(168)	–
<b>Total other comprehensive income, net of income tax</b>		<b>187</b>	<b>(38)</b>
<b>Total comprehensive income for the year</b>		<b>5,367</b>	<b>5,000</b>

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	Consolidated and Parent		
		2018 \$'000	2017 \$'000 Restated*	2016 \$'000 Restated*
<b>Assets</b>				
Cash and cash equivalents	4	19,730	24,062	43,733
Other financial assets	5	185,811	148,160	200,180
Receivables and other assets*	6	2,851	3,939	5,145
Loans to members	7(a)	1,118,053	1,064,823	877,534
Other loans	9	14,533	9,699	2,209
Property, plant and equipment	10	1,121	1,650	1,053
Deferred tax assets	11	967	800	819
Intangible assets	12	3,182	591	861
<b>Total assets</b>		<b>1,346,248</b>	<b>1,253,724</b>	<b>1,131,534</b>
<b>Liabilities</b>				
Borrowings from financial and other institutions	13	5,000	36,533	44,787
Deposits	14	1,233,865	1,109,037	986,187
Creditors, accruals and other liabilities	15	11,960	12,920	10,804
Taxation liabilities	16	661	846	398
Provisions	17	1,319	1,312	1,282
Long term borrowings	18	–	5,000	5,000
<b>Total liabilities</b>		<b>1,252,805</b>	<b>1,165,648</b>	<b>1,048,458</b>
<b>NET ASSETS</b>		<b>93,443</b>	<b>88,076</b>	<b>83,076</b>
<b>Members' equity</b>				
General reserve for credit losses	19	1,747	1,506	1,506
Cash flow hedge reserve		(123)	(82)	(44)
AFS fair value reserve		228	–	–
Retained earnings*		91,591	86,652	81,614
<b>Total members' equity</b>		<b>93,443</b>	<b>88,076</b>	<b>83,076</b>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

\* See Note 30

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Consolidated and Parent				Total \$'000
	Retained Earnings \$'000	Reserve for Credit Losses \$'000	Cash Flow Hedge Reserve \$'000	AFS Fair Value Reserve \$'000	
Balance as at 1 July 2016 (Restated*)	81,614	1,506	(44)	–	83,076
Profit after income tax	5,038	–	–	–	5,038
<b>Other comprehensive income</b>					
– Losses on cash flow hedges taken to equity items	–	–	(38)	–	(38)
<b>Total as at 30 June 2017</b>	<b>86,652</b>	<b>1,506</b>	<b>(82)</b>	<b>–</b>	<b>88,076</b>
Balance as at 1 July 2017 (Restated*)	86,652	1,506	(82)	–	88,076
Profit after income tax	5,180	–	–	–	5,180
<b>Other comprehensive income</b>					
– Losses on cash flow hedges taken to equity items	–	–	(41)	–	(41)
– Change in fair value of AFS Securities	–	–	–	396	396
– Gain/(loss) from AFS Securities recycled to profit or loss	–	–	–	(168)	(168)
– Transfer from retained earnings to reserve for credit losses	(241)	241	–	–	–
<b>Total as at 30 June 2018</b>	<b>91,591</b>	<b>1,747</b>	<b>(123)</b>	<b>228</b>	<b>93,443</b>

The Statement of Changes in Members' Equity should be read in conjunction with the accompanying notes.

\* See Note 30

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated and Parent	
		2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Interest received		54,392	51,126
Fees and commissions received		5,999	6,060
Other income		259	360
Interest paid		(26,252)	(23,851)
Suppliers and employees		(25,935)	(24,398)
Income taxes paid		(2,757)	(2,093)
Movement in members' loans		(53,218)	(187,413)
Movement in members' deposits and shares		124,828	122,850
Movement in other loans*		(4,834)	(8,397)
<b>Net cash flows from operating activities</b>	29(b)	<b>72,482</b>	<b>(65,756)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment		–	2,598
(Increase)/decrease in receivables from other financial institutions**		(37,651)	52,020
Purchase of property, plant and equipment		(421)	(240)
Purchase of intangible assets		(2,976)	(20)
<b>Net cash flows from investing activities</b>		<b>(41,048)</b>	<b>54,358</b>
<b>Cash flows from financing activities</b>			
<b>Inflows (outflows)</b>			
(Increase) in hedging derivatives		767	(19)
(Decrease) in borrowings from other institutions		(36,533)	(8,254)
<b>Net cash flows from financing activities</b>		<b>(35,766)</b>	<b>(8,273)</b>
Total net cash decrease		(4,332)	(19,671)
Cash at beginning of year		24,062	43,733
<b>Cash at end of year</b>	29(a)	<b>19,730</b>	<b>24,062</b>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

\* Reclassified from cash flows from investing activities to conform with the current year's presentation.

\*\* Reclassified from cash flows from financing activities to conform with the current year's presentation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## 1. Statement of Accounting Policies

This financial report is prepared for Australian Military Bank Limited and its subsidiaries (Australian Military Bank), for the year ended 30 June 2018.

The financial report was authorised for issue on 24 October 2018 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Australian Military Bank is a for-profit entity for the purpose of preparing the financial statements.

### a. Basis of Preparation

The consolidated and parent entity financial statements have been prepared on an accruals basis, and are based on historical costs, except for AFS securities and derivatives which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

The significant accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to the current year and comparative, unless otherwise stated. Where necessary, comparative information has been reclassified to be consistent with current year disclosure.

### b. Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Military Bank and its controlled entities as at and for the year ended 30 June 2018. Controlled entities are all those entities over which the parent entity, the Australian Military Bank, has the power to govern the financial and operating policies so as to obtain benefits from their activities. Accounting standards deem the Artemis Securitisation Trust Repo Series No.1 and Athena Trust, which are both special purpose entities, to be controlled entities of the Australian Military Bank, as it holds all the participating residual income units in its ownership structure. Accordingly, the Australian Military Bank's financial statements include those of the parent Australian Military Bank entity and its

Controlled Entities. As the Australian Military Bank controls the assets, liabilities, revenues and expenses of the Artemis Securitisation Trust Repo Series No.1 and Athena Trust, these have not been derecognised.

Therefore, the consolidated and parent financial information are identical.

The Athena Trust was terminated during the year ended 30 June 2018.

### c. Classification and measurement of financial instruments

Financial assets and financial liabilities are recognised when Australian Military Bank becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- ▶ loans and receivables;
- ▶ investments held-to-maturity (HTM); and
- ▶ Available for sale (AFS) investments.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within net interest income, except for impairment of loans and receivables and bad debts recovered, the net amount of which is recognised in operating expenses.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Australian Military Bank's cash and cash equivalents, trade and most other receivables and loans to members fall into this category of financial instruments.

## Investments – held to maturity (HTM)

HTM are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Australian Military Bank currently holds Term deposits, Negotiable Certificates of Deposit (NCD) and Floating Rate Notes in this category. Australian Military Bank has the intention and ability to hold receivables due from financial institutions to maturity. If more than an insignificant portion of these assets are sold or redeemed early, then the asset class will be reclassified as available-for-sale financial assets.

## Investments - available for sale (AFS)

AFS are non-derivative financial instruments that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

AFS are measured at fair value unless there is no ability to measure the fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within an AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as reclassification adjustments within other comprehensive income. Interest is calculated using the effective interest method and dividends are recognised in profit or loss within 'other income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

## d. Financial liabilities

Australian Military Bank's financial liabilities include borrowings (including subordinated debt), deposits, trade and other payables, and derivative financial instruments.

With the exception of derivatives, financial liabilities are measured subsequently at amortised cost using the effective interest rate method.

## Derivative financial instruments and hedge accounting

Australian Military Bank's derivative financial instruments are designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness of the gain or loss on the hedging instrument is recognised in profit or loss.

At the time the hedged item is reflected in profit or loss, any gain or loss from the hedging instrument previously recognised in other comprehensive income is reclassified from equity to profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

## Members' Deposits

Members' savings and term investments are initially recognised at fair value. After initial recognition, members' deposits are subsequently measured at amortised cost using the effective interest rate method.

## Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans and borrowings using the effective interest rate method.

## e. Loans to members

### (i) Basis of recognition and measurement

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the profit or loss over the period of the loans using the effective interest rate method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to Australian Military Bank at balance date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

#### **(ii) Interest earned**

Interest income and expense for all financial instruments measured at amortised cost is recognised in the income statement using the effective interest rate method. The effective interest rate methodology (EIR) is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

#### **(iii) Loan origination fees and discounts**

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue under EIR method.

#### **(iv) Transaction costs**

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue under method EIR.

#### **(v) Fees on loans**

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

### **f. Loan Impairment**

#### **(i) Specific and collective provision for impairment**

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with

terms of the loan agreement. The key assumptions used in the calculation are as set out in Note 8. Note 20 details the credit risk management approach for loans.

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been renegotiated to reduce the burden to the borrower.

The APRA Prudential Standard APS220 *Credit Quality* requires a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

#### **(ii) Reserve for credit losses**

In addition to the above specific provision based on "incurred loss" model under AASB139 requirements, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future (expected loss model).

#### **(iii) Renegotiated loans**

Loans which are subject to renegotiated terms are classified as impaired and retained at the full arrears position until repayments based on the renegotiated terms have been observed continuously for a period of six (6) months. Interest accrual will not be brought to account as income until such time as the renegotiated loan is reclassified to non impaired.

### **g. Bad debts written off (direct reduction in loan balance)**

Bad debts are written off from time to time as determined by management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write-offs are recognised as expenses in the statement of profit or loss.

### **h. Property, plant and equipment**

Property, plant and equipment are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to Australian Military Bank. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- ▶ Leasehold improvements: 3 to 5 years.
- ▶ Plant and equipment: 3 to 10 years.
- ▶ Assets less than \$1,000 are not capitalised.

#### **i. Due from other financial institutions**

Term Deposits and Negotiable Certificates of deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

#### **j. Provision for Employee Benefits**

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that Australian Military Bank expects to pay as a result of the unused entitlement.

Provision is made for Australian Military Bank's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national Government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with Australian Military Bank based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the creditor accruals and other liabilities.

Contributions are made by Australian Military Bank to an employee's superannuation fund and are charged to the statement of profit or loss as incurred.

#### **k. Leasehold on Premises**

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

#### **l. Income Tax**

Australian Military Bank and the Artemis Securitisation Trust Repo Series No.1 is a consolidated group for tax purposes. Australian Military Bank is the head of this tax consolidated group.

The income tax expense shown in the profit or loss is based on the profit before income tax adjusted for any non-tax deductible, or non-assessable items between accounting profit and taxable income.

Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the year in which the benefit will be received or the liability will become payable. These differences are presently recognised at the company tax rate of 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences.

The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that Australian Military Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

#### **m. Intangible Assets**

Items of computer software which are not integral to the computer hardware owned by Australian Military Bank are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. These lives range from 3 to 9 years.

#### **n. Goods and Services Tax (GST)**

As a financial institution, Australian Military Bank is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST. To the extent that the full amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included, where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### **o. Cash and cash equivalents**

*Cash* comprises cash on hand and demand deposits.

*Cash equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The amount of cash and cash equivalent balances held by the entity that are not available for use by Australian Military Bank are disclosed in Note 4 to the financial statements.

#### **p. Accounting Estimates and Judgements**

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 8 – Provision on impaired loans. Management have made critical accounting estimates when applying Australian Military Bank's accounting policies with respect to the impairment provisions for loans.

#### **q. New standards applicable for the current year**

Except for amendments to AASB107 Statement of Cashflow, there were no new or revised accounting standards applicable for financial years commencing from 1 July 2017 that had any significant impact on the financial statements of Australian Military Bank.

The Amendments to AASB 107 require enhanced statement of cashflow disclosures regarding changes in liabilities arising from financing activities, including changes from cashflows and non-cash changes. As these Amendments to AASB 107 impact disclosures only, the adoption on 1 July 2017 did not have an impact on the Company's financial position, results of operation or cash flows.

#### **r. New or emerging standards not yet mandatory**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2018, which have not been applied in preparing these financial statements. Those which may be relevant are set out below. The Bank does not plan to adopt these standards early.

▶ AASB 9 "Financial Instruments" includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on after 1 January 2018. The Bank is currently in the process of completing the assessment of the impact of AASB 9 adoption. The directors expect an increase in provision under the expected credit loss model. Any changes to the provision balance at the transition date will be booked into opening retained earnings as at 1 July 2018.

▶ AASB 15 "Revenue from Contracts with Customers" requires mandatory application for the financial year ended 30 June 2019. The impact on the financial statements resulting from the application of AASB 15 however it is not expected to be material.

▶ AASB 16 "Leases" introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. AASB 16 replaces existing leases guidance including AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation 115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions involving the Legal Form of a Lease. The standard is effective for annual years beginning on or after 1 January 2019. Early adoption is permitted.

So far, the most significant impact identified is that the Bank will recognise new assets and liabilities for its operating leases and computer expenditure commitments (Note 23(d) & (e)). The nature of expenses related to those leases will change when the standard is applied as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on the corresponding lease liabilities. The Bank plans to adopt AASB 16 for the financial year ending 30 June 2020.

	2018 \$'000	2017 \$'000
<b>2. Income Statement</b>		
<b>a. Interest revenue</b>		
Cash and cash equivalents	19	14
Due from other financial institutions	3,908	5,132
Loans to members	50,972	45,176
<b>Total interest income</b>	<b>54,899</b>	<b>50,322</b>
<b>b. Fee, commission and other income</b>		
<b>Fee and commission revenue</b>		
Fee income on loans – other than loan origination fees	931	937
Fee income from members' deposits	2,579	2,656
Insurance commissions	1,655	1,654
Other commissions	846	837
<b>Total fee and commission revenue</b>	<b>6,011</b>	<b>6,084</b>
<b>Other income</b>		
Dividends received on investments	–	128
Gain on disposal of shares	–	1,692
Miscellaneous revenue	259	232
<b>Total other income</b>	<b>259</b>	<b>2,052</b>
<b>Total fee commission and other income</b>	<b>6,270</b>	<b>8,136</b>
<b>c. Interest expenses</b>		
<b>Interest expense on liabilities carried at amortised cost</b>		
Deposits from members	25,789	22,851
Borrowings	835	1,960
<b>Total interest expense</b>	<b>26,624</b>	<b>24,811</b>
<b>d. Impairment losses/(gains)</b>		
Increase in provision for impairment	780	130
Bad debts written off directly against profit	1,006	399
Bad debts recovered	(239)	(552)
<b>Total impairment losses</b>	<b>1,547</b>	<b>(23)</b>
<b>e. General administration – depreciation and amortisation expense includes:</b>		
– Plant and equipment	148	94
– Leasehold improvements	222	224
– Amortisation of software	377	290
	<b>747</b>	<b>608</b>
<b>f. Auditor's remuneration</b>		
<b>KPMG – Current</b>		
– Audit fees	190	–
– Other services – taxation	20	–
– Other services – other	82	–
	<b>292</b>	<b>–</b>

	2018 \$'000	2017 \$'000
<b>Ernst and Young – Previous</b>		
– Audit fees	–	109
– Other services - taxation	–	18
– Other services - other	–	29
	<b>–</b>	<b>156</b>
<b>3. Income Tax Expense</b>		
<b>a. The income tax expense comprises amounts set aside as:</b>		
Current tax provision	2,486	2,210
Adjustments for previous years	86	350
<b>Total current income tax expense</b>	<b>2,572</b>	<b>2,560</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(265)	–
Adjustment for previous years	(14)	–
<b>Total income tax expense in income statement</b>	<b>2,293</b>	<b>2,560</b>
<b>b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:</b>		
<b>Profit before tax</b>	<b>7,473</b>	<b>7,598</b>
Prima facie tax payable on profit before tax at 30%	2,242	2,279
Sale of investments	–	(35)
Adjustment for the prior year	86	350
Others	(35)	20
<b>Subtotal</b>	<b>2,293</b>	<b>2,615</b>
Less		
– Franking rebate	–	(55)
<b>Income tax expense attributable to current year profit</b>	<b>2,293</b>	<b>2,560</b>
<b>4. Cash and Cash Equivalents</b>		
Cash on hand	1,913	2,167
Deposits at call	17,817	21,895
	<b>19,730</b>	<b>24,062</b>
Included within cash and cash equivalents at 30 June 2018 is \$4,995,435 and \$110,070 of liquidity and expense reserve respectively (2017: \$6,104,000 and \$110,070) held within Artemis Securitisation Trust Repo Series No.1 (Artemis Trust), which is a self securitisation for liquidity.		
<b>5. Other Financial Assests</b>		
<b>Held to Maturity</b>		
Negotiable Certificates of Deposit	–	61,860
Floating Rate Notes	–	54,509
Term Deposits	–	31,790
	<b>–</b>	<b>148,159</b>
\$40,802,285 of 2017 balance is expected to be received more than 12 months from the reporting date for the consolidated entity.		

	2018 \$'000	2017 \$'000
<b>Available for Sale</b>		
Negotiable Certificates of Deposit	104,933	–
Floating Rate Notes	31,029	–
Government Bonds	29,019	–
Term Deposits	20,809	–
	<b>185,790</b>	<b>–</b>
Cuscal Limited shareholding	1	1
Shared Lending Pty Ltd shareholding	20	–
<b>Total</b>	<b>185,811</b>	<b>148,160</b>
<p>During the year the Bank sold more than an insignificant portion of these assets before maturity dates. As a result, the portfolio has been reclassified to available for sale in accordance with the policy set out in Note 1 (c). \$58,425,000 is expected to be received more than 12 months from the reporting date for the consolidated entity.</p>		
	<b>2018 \$'000</b>	<b>2017* \$'000</b>
<b>6. Receivables and Other Assets</b>		
Interest receivable on deposits with other financial institutions	1,190	683
Prepayments	29	97
Sundry debtors and settlement accounts	1,632	3,159
	<b>2,851</b>	<b>3,939</b>
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>7. Loans to Members</b>		
<b>a. Amount due comprises:</b>		
Overdrafts and revolving credit	23,317	24,904
Term loans <sup>(1)</sup>	1,095,697	1,040,413
<b>Subtotal</b>	<b>1,119,014</b>	<b>1,065,317</b>
Add/(less):		
Unamortised loan origination expenses	686	467
Unearned income	(10)	(22)
<b>Subtotal <sup>(2)</sup></b>	<b>1,119,690</b>	<b>1,065,762</b>
Less:		
Provision for impaired loans (Note 8)	(1,637)	(939)
<b>Total</b>	<b>1,118,053</b>	<b>1,064,823</b>
<p>(1) Included as part of term loans as at 30 June 2018 are securitised loans of \$233,727,530 in Artemis Trust (2017: \$280,400,053 and \$36,145,327 in Artemis Trust and Athena Trust, respectively) which are consolidated as part of the Group and at the parent entity level do not achieve de-recognition under AASB 139 Financial Instruments: Recognition and Measurement. The Athena Trust was terminated during the year. During the year, nil (2017: \$168,888,000) variable interest rate loans were transferred from Australian Military Bank to the Artemis Trust.</p>		
<p>(2) \$1,012,297,504 (2017: \$852,600,000) is expected to be received more than 12 months after the reporting date for the consolidated entity.</p>		
<b>b. Credit quality – security held against loans</b>		
Secured by mortgage over real estate	1,033,401	968,258
Partly secured by goods mortgage	39,021	48,558
Wholly unsecured	46,592	48,501
	<b>1,119,014</b>	<b>1,065,317</b>

\* 2017 balances are restated balances. See Note 30.

	2018 \$'000	2017 \$'000
It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows.		
Security held as mortgage against real estate is on the basis of:		
– loan to valuation ratio of less than or equal to 80%	749,780	648,765
– loan to valuation ratio of more than 80% but mortgage insured	274,054	284,832
– loan to valuation ratio of more than 80% and not mortgage insured	9,567	34,661
<b>Total</b>	<b>1,033,401</b>	<b>968,258</b>
Loan to valuation ratio (LVR) is calculated as the ratio of current loan balance and the valuation at the time the mortgage was funded.		
<b>c. Concentration of loans by purpose</b>		
<b>Loans to members</b>		
Residential mortgage loans	1,033,401	968,258
Personal loans	85,613	97,059
	<b>1,119,014</b>	<b>1,065,317</b>
<b>Loans to corporations</b>	–	–
<b>8. Provision on Impaired Loans</b>		
<b>a. Total provision comprises</b>		
Specific provisions – loans to members (Note 7)	1,637	939
Specific provisions – other loans (Note 9)	82	–
<b>Total Provision</b>	<b>1,719</b>	<b>939</b>
<b>b. Movement in the provision for impairment</b>		
Balance at the beginning of year	939	809
Add/(deduct):		
Charged to profit or loss	780	130
<b>Balance at end of year</b>	<b>1,719</b>	<b>939</b>
Details of credit risk management is set out in Note 20.		
<b>c. Impaired loans written-off/(recovered)</b>		
Amounts written off directly to expense	1,006	399
Bad debts recovered in the period	(239)	(552)
<b>Net written-off/(recovered)</b>	<b>767</b>	<b>(153)</b>
<b>d. Analysis of loans that are impaired or potentially impaired by class</b>		
In the note below:		
– impaired loans value is the amount of loans to members which are past due by 90 days or more;		
– provision for impairment is the amount of provision allocated to the class of impaired loans.		

	2018		2017	
	Value of impaired loans	Provision for impairment	Value of impaired loans	Provision for impairment
	\$'000	\$'000	\$'000	\$'000
<b>Loans to members</b>				
Residential mortgages	–	–	–	–
Personal	1,367	922	765	564
Credit cards and overdrafts	924	715	512	375
Subtotal	2,291	1,637	1,277	939
<b>Other loans</b>				
Marketplace lending	179	82	–	–
Subtotal	179	82	–	–
Total to nature persons	2,470	1,719	1,277	939
Corporate borrowers	–	–	–	–
<b>Total</b>	<b>2,470</b>	<b>1,719</b>	<b>1,277</b>	<b>939</b>

**e. Analysis of loans that are impaired or potentially impaired based on the age of the repayments outstanding**

	2018			2017		
	Non-Impaired	Impaired	Provision for impairment	Non-Impaired	Impaired	Provision for impairment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
1 to 29 days	33,872	–	–	27,810	–	–
30 to 89 days in arrears	4,817	–	–	1,013	–	–
90 to 181 days in arrears	–	694	278	–	316	126
182 to 272 days in arrears	–	267	160	–	169	102
273 to 364 days in arrears	–	95	76	–	111	89
365 days in arrears and over	–	490	490	–	366	366
Over limit facilities over 14 days	–	924	715	–	315	256
<b>Total</b>	<b>38,689</b>	<b>2,470</b>	<b>1,719</b>	<b>28,823</b>	<b>1,277</b>	<b>939</b>

**f. Key assumptions in determining the provision for impairment**

In the course of the preparation of the annual report Australian Military Bank has determined the likely impairment loss on loans that have not maintained repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events Australian Military Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses.

An estimate is based on the period of impairment.

Period of impairment	% of balance
Up to 89 days	–
90 days to 181 days	40
182 days to 272 days	60
273 days to 364 days	80
365 days and over	100

	2018 \$'000	2017 \$'000
<b>9. Other Loans</b>		
Marketplace Lending	14,615	9,699
Less provision for impaired loans (Note 8)	(82)	–
<b>Total</b>	<b>14,533</b>	<b>9,699</b>
<b>Marketplace Lending</b>		
Australian Military Bank invests in loans via marketplace lending platforms in accordance with the Bank's risk appetite.		
Under these agreements, Australian Military Bank provides funding to selected secured and unsecured loan exposures.		
As at 30 June 2018, the funding amounted to \$14,615,000 (2017: \$9,699,000). The loans in marketplace lending are measured at amortised cost.		
<b>10. Property, Plant and Equipment</b>		
<b>a. Fixed assets</b>		
Plant and equipment - at cost	5,232	5,424
Less: accumulated depreciation	(4,487)	(4,344)
<b>Total plant and equipment</b>	<b>745</b>	<b>1,080</b>
Leasehold improvements – at cost	3,046	3,139
Less: accumulated amortisation	(2,670)	(2,569)
<b>Total leasehold improvements</b>	<b>376</b>	<b>570</b>
	<b>1,121</b>	<b>1,650</b>

**b. Movement in the asset balances during the year**

	2018		2017	
	Plant and equipment \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Leasehold improvements \$'000
Opening balance	1,080	570	410	643
WIP movement	(574)	–	675	–
Purchases	387	34	89	151
	893	604	1,174	794
Less				
Asset disposals	–	(6)	–	–
Depreciation	(148)	(222)	(94)	(224)
<b>Balance at end of year</b>	<b>745</b>	<b>376</b>	<b>1,080</b>	<b>570</b>

	2018 \$'000	2017 \$'000
<b>11. Deferred Tax Assets</b>		
Deferred tax assets comprise:		
– Accrued expenses not deductible until incurred	74	31
– Provisions for impairment on loans	516	282
– Provisions for employee benefits	341	323
– Provisions for other liabilities	280	274
– Depreciation on fixed assets and intangible assets	(146)	(110)
– Unrealised gain/(loss) from AFS investments	(98)	–
	<b>967</b>	<b>800</b>
<b>12. Intangible Assets</b>		
Intangible assets – at cost (software)	6,222	3,335
Less accumulated amortisation	(3,040)	(2,744)
	<b>3,182</b>	<b>591</b>
<b>Movement in the asset balances during the year</b>		
Opening balance	591	861
Purchase	2,976	20
	<b>3,567</b>	<b>881</b>
Less:		
Assets disposed	(8)	–
Amortisation charge	(377)	(290)
<b>Balance at end of year</b>	<b>3,182</b>	<b>591</b>
<b>13. Borrowings from financial and other institutions</b>		
Borrowing from other financial institutions	5,000	–
Loans	–	36,533
	<b>5,000</b>	<b>36,533</b>
Current year borrowings from financial institutions consisted of short-term money market placement that matures every 30 days. Interest rate as at 30 June 2018 is 2.73%.		
The loans amount in 2017 of \$36,533,000 related to the notes issued by the Athena Trust, which has been terminated during the year ended 30 June 2018. There were no defaults on interest and capital payments on these liabilities in the current or prior year.		
<b>14. Deposits</b>		
Member deposits		
– At call	608,627	587,484
– Term	524,386	451,450
Deposits from other financial institutions	100,750	70,000
Members withdrawable shares	102	103
	<b>1,233,865</b>	<b>1,109,037</b>
There were no defaults on interest and capital payments on these liabilities in the current or prior year.		

	2018 \$'000	2017 \$'000
<b>15. Creditors, Accruals and Other Liabilities</b>		
Annual leave	748	680
Creditors and accruals	1,896	2,588
Interest payable on borrowings	–	360
Interest payable on deposits	6,426	5,694
Accrual for GST payable	45	56
Derivative liability	123	64
Sundry creditors	2,722	3,478
	<b>11,960</b>	<b>12,920</b>
<b>16. Taxation Liabilities</b>		
Current income tax liability	661	846
<b>Current income tax liability comprises:</b>		
Balance – previous year	846	398
Less paid – previous year tax liability	(1,000)	(801)
	(154)	(403)
Liability for income tax in current year	2,486	2,210
Adjustments for over/under in previous year	86	350
Less instalments paid in current year	(1,757)	(1,311)
	<b>661</b>	<b>846</b>
<b>17. Provisions</b>		
Long service leave	389	397
Provisions – other	930	915
<b>Total Provisions</b>	<b>1,319</b>	<b>1,312</b>
<b>18. Long Term Borrowings</b>		
Subordinated Debt	–	5,000
On the 16th of November 2012, Australian Military Bank entered into an agreement to issue \$5m in Subordinated Debt with a maturity date of 16 November 2022 and an option to repay early from December 2017. Australian Military Bank repaid the debt in December 2017.		
<b>19. General Reserve for Credit Losses</b>		
Balance at beginning of year	1,506	1,506
Add: increase/(decrease) transferred from retained earnings	241	–
<b>Balance at the end of year</b>	<b>1,747</b>	<b>1,506</b>
This reserve records amount maintained to comply with the Prudential Standards set down by APRA. The board has determined this amount is sufficient to cover estimated future credit losses.		

## 20. Financial Risk Management Objectives and Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Australian Military Bank.

Australian Military Bank's risk management focuses on the major areas such as governance risk, liquidity risk, market risk, credit risk, operational risk and strategic risk. Authority flows from the Board of Directors to the Risk Committee and the Audit Committee which are both integral to the management of risk.

The main elements of risk governance are as follows:

**Board:** This is the primary governing body. It approves the level of risk which Australian Military Bank is exposed to and the framework for reporting and mitigating those risks.

**Risk Committee:** This is a key body in the control of risk. It has representatives from the Board and is supported by management. Regular monitoring is carried out by the Risk Committee through review of operational reports to confirm whether risks are within the parameters outlined by the Board.

The Risk Committee confirms there is a regular review of all operational areas to ensure that risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The Risk Committee monitors compliance with the risk management framework laid out in policy and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

**Audit Committee:** Its key role in relation to risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Risk Committee for their consideration.

**Asset & Liability Committee (ALCO):** This committee of senior management meets at least monthly and has responsibility for monitoring Australian Military Bank's liquidity, market and capital risk exposure, and in particular, ensuring such exposures adhere to, and remain within, the relevant risk limits / risk appetite as articulated in the corresponding Board approved policy.

**Credit Risk:** The Board determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be put in place regarding the authorisation of new loans.

The Chief Operating Officer has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making

process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the CEO or the Board. All exposures are checked daily against approved limits, independently of each business unit, and are reported to the Board.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them unless other factors indicate impairment should be recognised sooner. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the CEO weekly and the Board monthly.

Arrears are strictly controlled. A dedicated credit control team, which reports to the CEO and Board, implements Australian Military Bank's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the statement of financial position date.

**Head of Risk & Compliance:** The Head of Risk & Compliance is responsible for assisting the Board, Board Risk Committee and Executives to develop and maintain the risk management framework.

**Internal Audit:** Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Key risk management policies encompassed in the overall risk management framework include:

- ▶ Risk Management Strategy
- ▶ Liquidity Risk Management Plan
- ▶ Capital Management Plan
- ▶ Market Risk Management Plan
- ▶ Funding Plan
- ▶ Credit Risk Management Policy
- ▶ Collections Policy
- ▶ Compliance Program
- ▶ Data Risk Management Policy
- ▶ Internal Capital Adequacy Assessment Process

Australian Military Bank has undertaken the following strategies to minimise the risks arising from financial instruments:

## a. Market Risk

The objective of Australian Military Bank's market risk management is to manage and control market risk exposures in order to reduce risk and optimise return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on Australian Military Bank's financial condition or results. Australian Military Bank is not exposed to currency risk, and other significant price risk. Australian Military Bank does not actively trade in the financial instruments it holds on its books. Australian Military Bank is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the ALCO, which reports directly to the Board.

### Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. Australian Military Bank is only exposed to changes in interest rates.

### Cash flow interest rate risk

Cash flow interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a monthly basis and managed using interest rate swaps.

### Interest rate risk in the banking book

Australian Military Bank is exposed to cash flow interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

In the banking book the most common risk Australian Military Bank faces arises from fixed rate assets and liabilities. This exposes Australian Military Bank to the risk of sensitivity should interest rates change.

This risk is considered significant to warrant the use of derivatives to mitigate this risk.

### Method of measuring risk

Australian Military Bank measures its interest rate risk by the use of a value at risk (VaR) model. The detail and assumptions used are set out below.

### Hedging

To mitigate the interest rate risk arising from its banking operations, Australian Military Bank has entered into interest rate swaps.

## Value at Risk (VaR)

Australian Military Bank's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99 percent confidence level and taking into account historical correlations between different markets and rates.

The VaR on the banking book was as follows:

	2018	2017
VaR	\$75,986	\$72,814

Australian Military Bank is therefore confident within a 99 per cent confidence level over 365 days that, given the risks as at 30 June, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used. VaR above is presented in full dollar amount.

Australian Military Bank's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

## b. Liquidity Risk

Liquidity risk is the risk that Australian Military Bank may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

Australian Military Bank manages liquidity risk by:

- ▶ Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- ▶ Monitoring the maturity profiles of financial assets and liabilities;
- ▶ Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and,
- ▶ Monitoring the prudential liquidity ratio daily.

Australian Military Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. Australian Military Bank's policy is to operate with over 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this range the management and Board are to address the

matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. Note 24 describes the borrowing facilities as at the balance date.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 21.

### c. Credit Risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to Australian Military Bank which may result in financial loss. Credit risk arises principally from Australian Military Bank's loan book and investment assets.

#### (i) Credit Risk – Member Loans

The analysis of Australian Military Bank's loans by class is as follows:

Loan Type	2018		
	Carrying value	Commitments	Maximum exposure
	\$'000	\$'000	\$'000
Mortgages	1,033,401	69,740	1,102,553
Personal	62,296	4,253	65,541
Credit cards and overdrafts	23,317	23,181	48,112
<b>Total loans</b>	<b>1,119,014</b>	<b>97,174</b>	<b>1,216,206</b>

Loan Type	2017		
	Carrying value	Commitments	Maximum exposure
	\$'000	\$'000	\$'000
Mortgages	968,258	94,604	1,062,862
Personal	72,293	1,467	73,760
Credit cards and overdrafts	24,766	25,801	50,567
<b>Total loans</b>	<b>1,065,317</b>	<b>121,872</b>	<b>1,187,189</b>

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 23.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material.

The method of managing credit risk is by way of strict adherence to the credit assessment policies

before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

Australian Military Bank has established policies over the:

- ▶ credit assessment and approval of loans and facilities covering acceptable risk assessment, responsible lending regulations and security requirements;
- ▶ limits of acceptable exposure to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- ▶ reassessing and review of the credit exposures on loans and facilities;
- ▶ establishing appropriate provisions to recognise the impairment of loans and facilities;
- ▶ debt recovery procedures; and,
- ▶ review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

#### Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with Australian Military Bank that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly with personal loans and facilities not secured by registered mortgage over real estate.

If such evidence exists, the estimated recoverable amount of the asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in profit or loss. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, Australian Military Bank makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in Australian Military Bank's loan portfolio from homogenous portfolios of assets and individually identified loans.

The provisions for impaired and past due exposures relate to the loans to members.

Details are set out in Note 8.

### Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, Australian Military Bank is exposed should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7(b) describes the nature and extent of the security held against the loans held as at the balance date.

### Concentration risk – individuals

Concentration risk is a measurement of Australian Military Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of Australian Military Bank's regulatory capital a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

Australian Military Bank holds no significant concentrations of large exposures to loans to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

Australian Military Bank's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of no more than 80% and bi-annual reviews of compliance with this policy are conducted.

For loans with LVR of more than 80%, Australian Military Bank requires Lender's Mortgage Insurance to protect the Bank from adverse movements in housing market values.

### Concentration risk – industry

Australian Military Bank has a concentration in the retail lending for members who comprise employees and family in the Defence industry. This concentration is considered acceptable on the basis that Australian Military Bank was formed to service these members, and the employment concentration is not exclusive.

Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

### (ii) Credit risk – liquid investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in Australian Military Bank incurring a financial loss. This occurs when a debtor fails to settle their obligations owing to Australian Military Bank.

The credit policy is that investments are only made to institutions that are credit worthy based on the assessment of independent credit rating agencies. The risk of losses from liquid investments is reduced by the nature and quality of the financial institutions used and limits to the concentration and amount of individual investments with an institution.

The exposure values associated with credit quality (Moody's rating or equivalent) are as follows:

Investments with:	2018		
	Carrying value \$'000	Past due value \$'000	Provision \$'000
Government bonds – rated Aaa	29,019		
Cuscal – rated A-1	14,790	–	–
Banks – rated below Aaa	139,981	–	–
Credit Unions – rated below Aaa	2,000	–	–
<b>Total</b>	<b>185,790</b>	<b>–</b>	<b>–</b>
	2017		
Cuscal – rated A-1	14,790	–	–
Banks – rated below Aaa	120,386	–	–
Credit Unions – rated below Aaa	12,984	–	–
<b>Total</b>	<b>148,160</b>	<b>–</b>	<b>–</b>

### d. Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Australian Military Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Australian Military Bank is able to manage these risks to within tolerable limits.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes; including the use of Internal Audit.

## e. Capital Management

APRA has set minimum regulatory capital requirements for Australian Military Bank that are consistent with the Basel capital adequacy framework.

Australian Military Bank's capital structure comprises various forms of capital. Common Equity Tier 1 (CET1) capital comprises retained earnings plus certain other items recognised as capital. The ratio of such capital to risk-weighted assets is called the CET1 ratio. Additional Tier 1 capital comprises certain securities with required loss absorbing characteristics. Together these components of capital make up Tier 1 capital and the ratio of such capital to risk-weighted assets is called Tier 1 capital ratio.

Tier 2 capital mainly comprises of the general reserve for credit losses and contributes to the overall capital framework.

CET1 capital contains the highest quality and most loss absorbent component of capital, followed by Additional Tier 1 capital, and then followed by Tier 2

capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital Ratio. The minimum CET1 ratio, Tier 1 capital ratio, and Tier 2 capital ratio under APRA's Basel capital adequacy Prudential Standards are 4.5%, 6%, and 8% respectively.

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or cease business.

APRA also implemented a capital conservation buffer of 1.5% of an ADI's total risk-weighted assets.

Capital ratios are monitored against internal capital targets set by the Board that are over and above APRA's minimum capital requirements.

As at 30 June 2018 and 30 June 2017 the Bank's capital ratio complied with its required Prudential Capital Ratio.

## 21. Maturity Profile of Liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. Financial liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

2018	Book Value \$'000	On Demand \$'000	Up to 3 months \$'000	3 – 12 months \$'000	1 – 5 years \$'000	After 5 years \$'000	No Maturity \$'000	Total \$'000
<b>LIABILITIES</b>								
Borrowings from financial and other institutions	5,000	–	–	5,004	–	–	–	5,004
Deposits from other financial institutions	100,750	–	75,430	25,785	–	–	–	101,215
Deposits from members – at call	608,729	608,627	–	–	–	–	102	608,729
Deposits from members – term	524,386	–	232,034	257,861	40,957	–	–	530,852
Subordinated debt	–	–	–	–	–	–	–	–
Creditors and other liabilities	7,701	7,578	–	–	123	–	–	7,701
<b>Total Financial Liabilities</b>	<b>1,245,566</b>	<b>616,205</b>	<b>307,464</b>	<b>288,650</b>	<b>41,080</b>	<b>–</b>	<b>102</b>	<b>1,253,501</b>

2017	Book Value	On Demand	Up to 3 months	3 – 12 months	1 – 5 years	After 5 years	No Maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>LIABILITIES</b>								
Borrowings from financial and other institutions	36,533	–	–	36,533	–	–	–	36,533
Deposits from other financial institutions	70,000	–	46,155	23,823	528	–	–	70,506
Deposits from members – at call	587,587	587,484	–	–	–	–	103	587,587
Deposits from members – term	451,450	–	170,446	247,744	38,967	–	–	457,157
Subordinated debt	5,000	–	–	5,172	–	–	–	5,172
Creditors and other liabilities	7,547	7,483	–	–	64	–	–	7,547
<b>Total Financial Liabilities</b>	<b>1,158,117</b>	<b>594,967</b>	<b>216,601</b>	<b>313,272</b>	<b>39,559</b>	<b>–</b>	<b>103</b>	<b>1,164,502</b>

## 22. Fair Value of Financial Assets and Liabilities

Australian Military Bank uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Quoted market price represents the fair value based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, Australian Military Bank uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

There were no transfers between Level 1 and Level 2 during the year.

	Carrying value	Fair value as at 30 June 2018			
	As at 30 June 2018	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents <sup>(1)</sup>	19,730	19,730	–	–	19,730
Other financial assets	185,811	–	185,790	21	185,811
Receivables <sup>(1)</sup>	2,822	–	2,822	–	2,822
Loans to members	1,118,053	–	1,117,056	–	1,117,056
Other loans <sup>(1)</sup>	14,533	–	14,533	–	14,533
<b>Total financial assets</b>	<b>1,340,949</b>	<b>19,730</b>	<b>1,320,201</b>	<b>21</b>	<b>1,339,952</b>

	Carrying value	Fair value as at 30 June 2018			
	As at 30 June 2018	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL LIABILITIES</b>					
Borrowings <sup>(1)</sup>	5,000	–	5,000	–	5,000
Deposits from other financial institutions	100,750	–	100,846	–	100,846
Deposits from members - at call <sup>(1)</sup>	608,729	–	608,729	–	608,729
Deposits from members - term	524,386	–	525,732	–	525,732
Creditors and other liabilities <sup>(1)</sup>	7,701	–	7,701	–	7,701
<b>Total financial liabilities</b>	<b>1,246,566</b>	<b>–</b>	<b>1,248,008</b>	<b>–</b>	<b>1,248,008</b>
	Carrying value	Fair value as at 30 June 2017			
	As at 30 June 2018	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents <sup>(1)</sup>	24,062	24,062	–	–	24,062
Other financial assets	148,160	–	148,941	1	148,942
Receivables <sup>(1)</sup>	4,105	–	4,105	–	4,105
Loans to members	1,064,823	–	1,048,939	–	1,048,939
Other loans <sup>(1)</sup>	9,699	–	9,699	–	9,699
<b>Total financial assets</b>	<b>1,250,849</b>	<b>24,062</b>	<b>1,211,684</b>	<b>1</b>	<b>1,235,747</b>
<b>FINANCIAL LIABILITIES</b>					
Borrowings <sup>(1)</sup>	36,533	–	36,533	–	36,533
Deposits from other financial institutions	70,000	–	70,000	–	70,000
Deposits from members - at call <sup>(1)</sup>	587,587	–	587,587	–	587,587
Deposits from members - term	451,450	–	453,458	–	453,458
Creditors and other liabilities <sup>(1)</sup>	7,547	–	7,547	–	7,547
Subordinated debt	5,000	–	5,000	–	5,000
<b>Total financial liabilities</b>	<b>1,158,117</b>	<b>–</b>	<b>1,160,125</b>	<b>–</b>	<b>1,160,125</b>

(1) For these assets and liabilities, the carrying value approximates fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of Australian Military Bank on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The fair value estimates were determined by the following methodologies and assumptions:

#### Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

#### Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

### Deposits

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related maturity.

### Borrowings from financial and other institutions

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

	2018 \$'000	2017 \$'000
<b>23. Financial Commitments</b>		
<b>a. Outstanding loan commitments</b>		
The loans approved but not funded	7,125	36,222
<b>b. Loan redraw facilities</b>		
The loan redraw facilities available	66,868	59,850
<b>c. Undrawn loan facilities</b>		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	48,112	50,567
Less: Amount advanced	(24,931)	(24,766)
Net undrawn value	23,181	25,801
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
<b>Total financial commitments</b>	<b>97,174</b>	<b>121,872</b>
<b>d. Computer expenditure commitments</b>		
Australian Military Bank has entered into a contract to purchase computer software for which the amount is to be paid over the following periods:		
Within 1 year	1,977	2,156
Later than one year but not later than five years	5,652	5,200
Over five years	2,600	2,600
	10,229	9,956
<b>e. Lease expense commitments for operating leases on property occupied by Australian Military Bank</b>		
Within 1 year	1,170	1,040
Later than one year but not later than five years	5,078	4,916
Over five years	–	1,332
	6,248	7,288

Future minimum sub sublease payments expected to be received under non-cancellable subleases at the reporting date are \$307,388 [2017: \$426,535 and both figures are in full dollar amount].

The operating leases are in respect of property used as principal place of business and for providing branch services to members. There are no contingent rentals applicable to leases taken out.

The terms of the leases are up to 10 years with options for renewal for a further 5 years. There are no restrictions imposed on Australian Military Bank so as to limit the ability to undertake further leases or borrow funds.

## 24. Standby Borrowing Facilities

Australian Military Bank has a number of borrowing facilities.

	Gross \$'000	Current borrowing \$'000	Net available \$'000
<b>2018</b>			
Overdraft facility – Cuscal	3,000	–	3,000
Loan facility – Other	50,000	10,519	39,481
Athena – Westpac committed facility	–	–	–
<b>Total standby borrowing facilities</b>	<b>53,000</b>	<b>10,519</b>	<b>42,481</b>
<b>2017</b>			
Overdraft facility – Cuscal	3,000	–	3,000
Loan facility – Other	50,000	–	50,000
Athena – Westpac committed facility	100,000	36,533	63,467
<b>Total standby borrowing facilities</b>	<b>153,000</b>	<b>36,533</b>	<b>116,467</b>

Withdrawal of the overdraft facility is subject to the availability of funds at Cuscal. Cuscal holds a deposit from Australian Military Bank as security against overdraft amounts drawn under the facility arrangement.

## 25. Contingent Liabilities

### Reserve Bank Repurchase Obligations (REPO) Trust

To support liquidity management Australian Military Bank has entered into an agreement to maintain a portion of the mortgage backed loans as security against any future borrowings from the Reserve Bank as a part of its liquidity support arrangements.

## 26. Disclosures on Key Management Persons

### a. Remuneration of Key Management Persons (KMP)

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of Australian Military Bank, directly or indirectly, including any Director (whether executive or otherwise).

Control is the power to govern the financial and operating policies of Australian Military Bank so as to obtain benefits from its activities.

KMP have been taken to comprise the Directors and the 3 members of the Executive Management responsible for the day-to-day financial, operational and risk management of Australian Military Bank. The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

	2018 \$	2017 \$
(a) short-term employee benefits	1,196,643	1,142,047
(b) post-employment benefits – superannuation contributions	95,552	89,900
(c) other long-term benefits – net increases in long service leave provision	9,659	6,334
(d) termination benefits	–	–
(e) share-based payment	–	–
<b>Total</b>	<b>1,301,854</b>	<b>1,238,281</b>

In the previous table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by the members at the previous Annual General Meeting of Australian Military Bank.

### b. Loans to KMP

Australian Military Bank's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit.

There are no loans which are impaired in relation to the loan balances with Director's or other KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of the key management persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and other KMP.

The details of transactions during the year are as follows:

	2018 \$			2017 \$		
	Mortgage secured	Other term loans	Credit cards	Mortgage secured	Other term loans	Credit cards
Funds available to be drawn	–	–	8,000	–	–	28,000
Balance	774,749	–	–	792,085	–	–
Amounts disbursed or facilities increased in the year	–	–	–	800,625	–	–
Interest and other revenue earned	34,725	–	–	25,288	–	–

	2018 \$	2017 \$
Other transactions between related parties include deposits from Directors, and other KMP are:		
Total value term and savings deposits from KMP	420,512	386,249
Total interest paid on deposits to KMP	15,499	2,713

Australian Military Bank's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

### c. Transactions with other related parties

Other transactions between related parties include deposits from Director related entities or close family members of Directors, and other KMP.

Australian Military Bank's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the KMP.

There are no service contracts to which KMP or their close family members are an interested party.

## 27. Outsourcing Arrangements

Australian Military Bank has arrangements with other organisations to facilitate the supply of services to members.

### a. Cuscal Limited

Cuscal is an Approved Deposit Taking Institution registered under the *Corporations Act 2001* and the Banking Act. This organisation:

- (i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa Card and cheque transactions, direct entry transactions, as well as the production of Visa cards for use by members;
- (ii) operates the computer network used to link Visa cards operated through approved ATM providers to Australian Military Bank's Electronic Data Processing systems;
- (iii) provides treasury and money market facilities to Australian Military Bank. Australian Military Bank invests part of its liquid assets with Cuscal.

### b. Transaction Solutions Pty Limited

This entity operates the computer facility on behalf of Australian Military Bank. Australian Military Bank has a management contract with the company to supply computer support staff and services to meet the day-to-day needs of Australian Military Bank and compliance with the relevant Prudential Standards.

### c. Infosys Technologies Limited

Provides core banking platforms and technology consulting services to the Bank.

## 28. Superannuation Liabilities

Australian Military Bank contributes to the NGS Super Plan (if the employee has not made another choice) for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

Australian Military Bank has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

	2018 \$'000	2017 \$'000		
<b>29. Notes to Cash Flow Statement</b>				
<b>a. Reconciliation of cash</b>				
Cash on hand	1,913	2,167		
Deposits at call	17,817	21,895		
<b>Total cash and cash equivalents</b>	<b>19,730</b>	<b>24,062</b>		
<b>b. Reconciliation of cash flows from operations to profit after income tax</b>				
Profit after income tax	5,180	5,038		
<b>Add (Deduct):</b>				
Depreciation expense	747	608		
Gain on disposal of shares	–	(1,692)		
Fair value movements	–	(18)		
Gain/(loss) from AFS securities	(580)	–		
	5,347	3,936		
<b>Movement in assets and liabilities</b>				
(Decrease)/increase in provision for income tax	(185)	448		
Increase in other provisions	7	30		
Increase in provision for loans	698	130		
(Decrease)/increase in accrued expenses	(1,454)	480		
Increase in interest payable	372	960		
Decrease/(increase) in prepayments	68	(5)		
Decreases in sundry receivables	1,527	403		
Decrease/(increase) in deferred tax assets	(167)	19		
Increase in loans balances	(53,218)	(187,413)		
Increase in deposit balances	124,828	122,850		
Increase in other loans	(4,834)	(8,397)		
(Increase)/decrease in interest receivable	(507)	803		
<b>Net cash flows from operating activities</b>	<b>72,482</b>	<b>(65,756)</b>		
<b>c. Reconciliation of liabilities arising from financing activities</b>				
	<b>Borrowings from financial institutions</b>	<b>Long term borrowings</b>	<b>Derivatives</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance - 1 July 2017	36,533	5,000	64	41,597
Proceeds from borrowings	45,000	–	–	45,000
Repayment of borrowings	(76,533)	(5,000)	–	(81,533)
Others	–	–	59	59
<b>Closing balance – 30 June 2018</b>	<b>5,000</b>	<b>–</b>	<b>123</b>	<b>5,123</b>

## 30. Restatement

During 2018, the Bank discovered that receivables and other assets as at 30 June 2016 were overstated by \$263,000. As a consequence, the amount has been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Bank's financial statements.

### i. Statement of financial position

	Impact of correction error		
	As previously reported	Adjustments	As restated
30 June 2016	\$'000	\$'000	\$'000
Receivables and other assets	5,408	(263)	5,145
<b>Total assets</b>	<b>1,131,797</b>	<b>(263)</b>	<b>1,313,534</b>
Retained earnings	81,877	(263)	81,614
<b>Total equity</b>	<b>83,339</b>	<b>(263)</b>	<b>83,076</b>

	Impact of correction error		
	As previously reported	Adjustments	As restated
30 June 2017	\$'000	\$'000	\$'000
Receivables and other assets	4,202	(263)	3,939
<b>Total assets</b>	<b>1,253,987</b>	<b>(263)</b>	<b>1,253,724</b>
Retained earnings	86,915	(263)	86,652
<b>Total equity</b>	<b>88,339</b>	<b>(263)</b>	<b>88,076</b>

## 31. Events After Reporting Date

There have been no events after the reporting date that require disclosure in these financial statements.

## 32. Corporate Information

Australian Military Bank is a company limited by shares, and is registered under the *Corporations Act 2001*.

The address of the registered office and principal place of business is Level 18, 45 Clarence Street, Sydney NSW 2000.

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of Australian Military Bank.

## Directors (As at 30 June 2018)

John Robert Brooks

Sean Patrick FitzGerald

Jodie Marie Hampshire, CFA

Bruce Andrew Robert Scott, CSC

BRIG Jane Maree Spalding, AM

Graham Anthony Weber

RADM Clinton William Thomas AM, CSC, RANR

## Chief Executive Officer

John Ronald Ford

## Auditors

KPMG

## Image Index

**Cover:** Officers and sailors from eastern based ships and establishments fall out on HMAS Canberra's flight deck at the conclusion of Fleet Divisions in Garden Island, Sydney. Photographer: LSIS Kayla Hayes.



### Inside Front Cover

Soldiers from 7th Combat Service Support Battalion take cover in a fighting position on Exercise Diamond Run 2017. Photographer: CAPT Anna-Lise Brink.



### Page 6

Squadron Leader Ian Coffey, Commander Task Unit Headquarters Exercise Mhanuu 17, in front of the C-27J Spartan transport aircraft on the Tontouta Air Base flight line in New Caledonia. Photographer: CPL Nicci Freeman.



### Page 19

Members of General Entry 360 Taylor Division during their Graduation Parade held at Recruit School, HMAS Cerberus, Victoria. Photographer: ABIS Bonny Gassner.



**Australian  
Military Bank**

1300 13 23 28

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Australian Military Bank Limited ABN 48 087 649 741 | AFSL and Australian credit licence number 237 988.