

# 2017 ANNUAL REPORT



Australian  
Military Bank



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# DIRECTORS' REPORT

## CHAIRMAN'S ADDRESS



“ It is my pleasure to once again report on the performance of Australian Military Bank for the last Financial Year. 2016/17 was a significant year for your bank with sound financial performance, strong growth and exciting initiatives planned. ”

As the longest serving financial services provider to the Defence community we're committed to contributing positively to the wider Defence community in a variety of ways. For example, we're dedicated to supporting 'on base life' through our extensive branch network, continued support of Defence Community Organisation Days, on-base Family Days and by supporting messes and other Defence bonded businesses.

In addition, Australian Military Bank is proud to sponsor a number of initiatives which bring awareness to extremely worthy causes. These include:

- ▶ The Long Ride, supporting the Prostate Cancer Foundation;
- ▶ White Ribbon Charity Golf Days, helping to prevent violence against women, and
- ▶ The Australian Defence Force Aussie Rules (ADFAR) AFL Carnival.

We have also continued to generate recurring funding for our Defence charity partners through the Military Rewards Account 'cents rounding' initiative. As a result, Australian Military Bank and its members have contributed over \$61,000 to RSL Defence Care, Legacy, Mates4Mates and Soldier On. I take this opportunity to thank our members for selecting this account and in turn helping us support these Defence dedicated charities.

### Performance

The financial position of your bank remains strong, with sound prudential ratios and increased profitability. We increased our profit after tax by 6.2% to \$5 million, allowing us to afford greater reinvestment in the business. Our efficiency, as measured by our cost-to-income ratio, continues to improve which is necessary in light of lower net interest margins due to the persistent and unusually low interest rate environment.

Our credit quality continues to improve with loan delinquency finishing the year at an all time low 0.23%. This isn't by chance; we've undertaken significant steps to ensure a responsible lending approach. Bank-wide initiatives aimed at improving the loan application process as well as refining loan serviceability assessments have resulted in greater assurance

members are not advanced loans they cannot afford to repay.

Australian Military Bank continues to remain very liquid with a diversified source of funding enabling us to remain well placed to continue to meet the borrowing requirements of our members. I'd especially like to thank our members who have savings and investments with us. Whilst low interest rates are good for borrowers, we understand the difficulties the low rate environment presents to those who are living off their savings, and we do our best to ensure that we offer competitive deposit rates.

### Growth

Following what was a defining year in 2015/16 with the conversion to mutual bank status, 2016/17 saw the bank perform strongly both in terms of membership and balance sheet growth.

Australian Military Bank's membership now stands at over 53,000 with the introduction of products such as the Military Rewards Account, strong deposit and savings products as well as new pricing for personal loans; all contributing to our growth.

We're extremely proud to continue our track record of above banking system growth with total assets growing to over \$1.25 billion, up 10.8% for the year. We aspire to be the preferred provider of retail banking products and services to people in Australia's Defence Community and the strong growth in membership, lending and deposits reflects the value our members receive.

### Recent Developments

Our profits allow us to invest in better products and services for our members. One such investment is the upcoming Bank Transformation Project where we are overhauling the bank's core IT, Internet and Mobile banking systems and processes to become a more flexible and efficient bank. We're excited and confident that this project will improve member experience for the long term. The Chief Executive Officer's summary contains further detail on this project.

In June 2017 Australian Military Bank was reappointed as a home loan provider (HLP) under the Defence Home Ownership Assistance Scheme (DHOAS) for another five years. We have been a key part of the DHOAS program since it was established in 2008 and over that time we have provided in excess of \$1.5 billion in loans to help more than 4,200 Australian Defence Force personnel realise their dream of home ownership and achieve financial stability.

In November 2016, we redesigned our personal loan products to offer reduced rates for members based on their personal credit history. Our team of personal bankers will not only provide fast approval times but will also provide tips on how you can better improve your credit rating.

## Acknowledgement and Thanks

Our significant progress and growth is attributable to many stakeholders.

Firstly, we thank Australia's Defence Community. We take our obligations to service the Defence Community seriously and remain dedicated to this purpose. Whether its meeting the financial needs of serving or retired Defence personnel; cadets and reservists together with their families; Defence public servants; and contractors and other providers to Defence in Australia; we regard this as a privilege and see this as core to our purpose.

Secondly, we would also like to thank the ex-service organisations and their members for their ongoing support. They play a critical role in the welfare of current and ex-serving personnel and we are particularly pleased to continue to build an ongoing charitable

funding relationship with RSL Defence Care, Legacy, Mates4Mates and Soldier On.

Thirdly, I would like to acknowledge the Australian Military Bank team, be they directors, management or staff, for their hard work and dedication across the year. There has been great teamwork and collaboration between the Board and management as evidenced in our successful tender bid for inclusion in the next DHOAS phase.

Fourthly, I'd also like to acknowledge on behalf of the entire Board the 21 years of service by retiring Director Warren Thomas. Warren is a remarkable character who has contributed strongly and in a variety of ways to the Bank's development and our thanks and best wishes go to him in his retirement.

Finally, and most importantly, we thank our members for their ongoing support of Australian Military Bank. We look forward to serving you again this year.



**RADM C.W. Thomas, AM, CSC, RANR**  
Chairman, Australian Military Bank



“ The Chairman’s address outlines the progress of your bank over the past 12 months. This strong recent performance provides us a sound platform, however, we fully appreciate that our members are evolving in terms of their financial needs and their service preferences. ”

For this reason we have recently embarked on a Bank Transformation Project to position us well for the future in terms of our member experience and long term sustainability.

### Technology as the core disruptor

We have been extensively reviewing new technologies to enable us to offer new services and a differentiated member experience. Technology is profoundly changing the way people can interact with their financial service provider so we have recently commenced on a transformation journey by investing in new technologies supported by more modern and efficient processes. We expect to deploy these new technologies and processes in 2018.

### Member focused innovation

Our new core banking, internet banking and mobile banking services will be aimed at providing an enhanced member experience including on-demand automated and digital offerings. Some of the enhancements that will be included in the new internet and mobile banking services include but are not limited to:

- ▶ Budgeting tools – enabling members to track spending, set up goals on accounts and track savings, as well as a range of handy calculators to help budget when looking to borrow monies;
- ▶ Card change PIN – enabling members to now reset a customisable card PIN;
- ▶ Increased security functionality – two factor authentication further protecting members transactions;
- ▶ Real time alerts – on balances and deposits or withdrawals made;

- ▶ International payments – enabling members to send monies overseas;
- ▶ Offers – advising members of current offers and events available to take advantage of and having the ability to apply directly online and track your applications status;
- ▶ Communication preferences – the ability to select how you would like to hear from us and the ability to send us secure mail service requests via the functionality, and finally;
- ▶ New Payments Platform registration – providing our members the choice of making real time payments via the New Payments Platform (NPP).

I’m very excited about how the new core banking, internet and mobile banking services will service our members’ banking needs in an easy and modern manner.

### Enhanced security and privacy measures

In today’s environment we can never be too careful with our members’ information which is why we will continue to invest in intelligence capabilities to meet the threats and challenges banks may face when it comes to cyber threats. This will ensure we are always on the alert to protect our members’ data and privacy against fraudulent attacks.

Finally as we continue on the banking transformation journey we are on, we will be communicating with you more specifically around how the new core banking, internet banking and mobile banking functionalities will impact on our members and also changes that may impact on you during transition. We ask for your patience along the way, as we work towards delivering an easy and modern banking service dedicated to the Australian Defence Community.

Thank you.



**John Ford**  
CEO, Australian Military Bank

## 2017 OFFICE BEARERS



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

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

#### 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 17 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  
Chair of the Australian Military Bank Renewal Committee  
Chair of the Australian Military Bank Governance Committee  
Chair of the Australian Military Bank Board

## John Robert Brooks

### Qualifications

Bachelor of Arts  
Graduate of the Royal Air Force Staff College  
Fellow of the Australian Defence College  
Member of the Australasian Mutuals Institute  
Member of the Australian Institute of Company Directors  
Graduate Diploma in Strategic Studies

### Experience and Responsibilities

Mutual Bank Director for 17 years  
28 years in the RAAF Logistics Branch  
Member of the Australian Military Bank Remuneration Committee  
Member of the Australian Military Bank Risk Committee

## Jodie Marie Hampshire, CFA

### Qualifications

Bachelor of Commerce  
CFA Charterholder  
Graduate Member of the 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  
Head of Institutional Australia for Russell Investments with responsibility for a team of professionals who deliver investment and superannuation services to clients with total assets of over \$25 billion.  
Mutual Bank Director for 2 years  
Chair of Australian Military Bank Risk Committee

## Bruce Andrew Robert Scott, CSC

### 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 4 years  
42 years service and experience in the Australian Army  
Member of the Australian Military Bank Risk Committee  
Former Chair of the Australian Military Bank Remuneration Committee  
Chair of the Australian Military Bank Audit Committee  
Director Shooting Australia  
Chair of Shooting Australia Finance and Audit Committee  
Chairman, North Queensland Rifle Association Inc

## Brigadier Jane Maree Spalding, AM

### 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 10 years  
34 years in the Australian Regular Army  
Currently Chief of Staff Army Headquarters  
Head of Corps Royal Australian Army Ordnance Corps  
Former Chair of the Australian Military Bank Audit Committee  
Chair of the Australian Military Bank Remuneration Committee  
Previously a member of the TAFE Riverina Institute Advisory Council

## Warren Raymond Thomas

### Qualifications

Graduate Diploma in Company Directorship  
Member of the Australasian Mutuals Institute  
Graduate Member of the Australian Institute of Company Directors  
Member of the Club Directors Institute of NSW

### Experience and Responsibilities

37 years in Department of Defence, including Army service in Vietnam  
20 years experience in high level financial management in various Navy and Army Commands  
President of Cronulla RSL sub-Branch (2008-present)  
Director of Cronulla RSL Memorial Club (2005-present)  
Mutual Bank Director for 21 years  
Past Deputy Chairman of the Australian Military Bank Board  
Chair of the Australian Military Bank Renewal Committee  
Member of the Australian Military Bank Audit Committee

## Graham Anthony Weber

### Qualifications

Fellow Australian Society of Certified Practising Accountants (FCPA)  
Bachelor of Commerce in Accounting  
Member of the Australasian Mutuals Institute  
Member Australian Institute of Company Directors

### Experience and Responsibilities

6 years in Accounting Firms and Advisory Services  
23 years in State and Commonwealth Agencies in Financial Management, budgeting and performance reporting  
Currently Chief Finance Officer – Air Force  
Mutual Bank Director for 9 years  
Member of the Australian Military Bank Audit Committee  
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 the Australasian Mutuals Institute  
Advanced Diploma of Superannuation  
Member of the Association of Superannuation Funds of Australia Limited

### Experience and Responsibilities

Chief Executive Officer – Australian Military Bank  
28 years management experience in Banks, Building Societies and Credit Unions  
Company Secretary  
Grazier

## Joa de Wet

### Qualifications

Chartered Accountant

### Experience and Responsibilities

Over 20 years experience in Financial Services  
Head of Finance at Australian Military Bank since January 2017  
Company Secretary

## MEETINGS ATTENDED

	Board Committee Meetings													
	Board Meetings		AGM		Board Governance		Audit		Risk		Renewal		Remuneration	
	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Clinton Thomas	9	8	1	1	12	12	-	-	-	-	4	4	2	2
John Brooks	9	8	1	1	-	-	-	-	6	6	-	-	2	2
Jodie Hampshire	9	9	1	1	-	-	-	-	6	6	-	-	-	-
Bruce Scott	9	8	1	1	-	-	4	4	3	3	-	-	1	1
Jane Spalding	9	7	1	1	-	-	3	3	3	2	-	-	1	1
Warren Thomas	9	8	1	1	-	-	7	5	-	-	4	4	-	-
Graham Weber	9	9	1	1	12	11	7	6	-	-	-	-	-	-

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

A – No. of meetings attended

## 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 2017, no Director has received or become entitled to receive any such benefit.

## 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 million [2015 \$4.7 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 12.

## 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:



RADM C.W. Thomas, AM, CSC, RANR  
Chairman, Australian Military Bank

28 September 2017



Graham Anthony Weber  
Deputy Chairman, Australian Military Bank

28 September 2017

## DIRECTORS' DECLARATION

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

1. The financial statements and notes of Australian Military Bank Ltd 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 2017 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*, and
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:



RADM C.W. Thomas, AM, CSC, RANR  
Chairman, Australian Military Bank

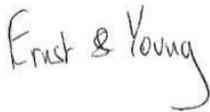
28 September 2017

## Auditor's Independence Declaration to the Directors of Australian Military Bank Limited

As lead auditor for the audit of Australian Military Bank Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Military Bank Limited and the entities it controlled during the financial year.



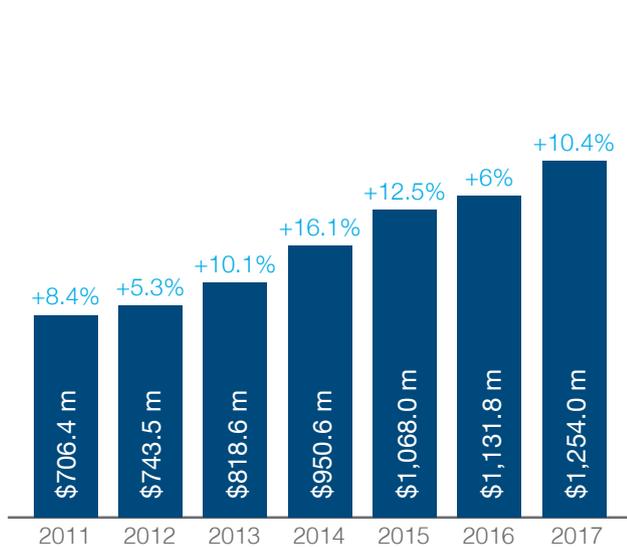
Ernst & Young



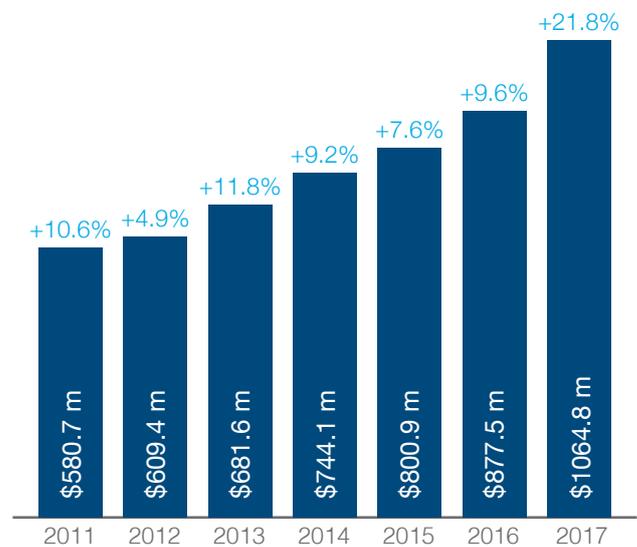
Richard Balfour  
Partner

28 September 2017

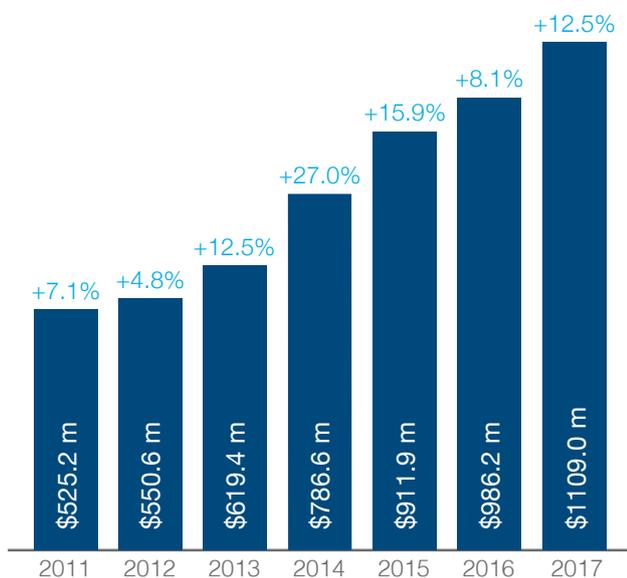
# KEY PERFORMANCE MEASURES



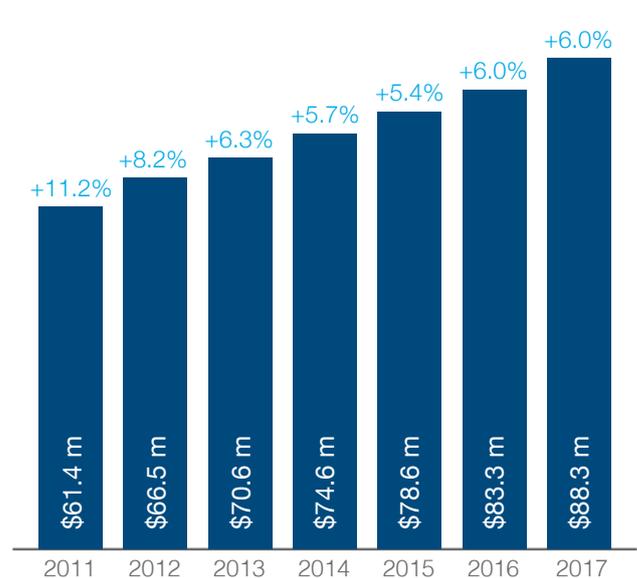
**BALANCE SHEET ASSETS**



**NET BALANCE SHEET LOANS**



**DEPOSITS**



**MEMBERS' EQUITY**

## AUSTRALIAN MILITARY BANK TO CONTINUE OFFERING DHOAS HOME LOANS

On 8 June 2017, Australian Military Bank was re-appointed as home loan provider to the Defence Home Ownership Assistance Scheme (DHOAS) for another five years.

Australian Military Bank has been a key part of the DHOAS program since it was established in 2008 and over that time we have provided in excess of \$1.5 billion in loans to help more than 4,200 Australian Defence Force (ADF) personnel realise their dream of home ownership and achieve financial stability.

Australian Military Bank CEO John Ford, is excited by the prospect of supporting many more current and former Defence personnel and their families realise their dreams.

“The Defence Home Ownership Assistance Scheme (DHOAS) is a fantastic initiative which supports ADF personnel and their families to own their own home.”

“As a home loan provider, we play our part in promoting home ownership amongst the ADF.”

“Being able to deliver DHOAS Home Loans to the Defence community enables Australian Military Bank to continue to focus on providing our members with better quality services, lower fees and competitive interest rates.”

“As Australia’s longest serving financial institution for Defence, we’re dedicated to helping the men and women who protect and serve our community.”

DHOAS provides eligible current and former serving members of the ADF and Reserves with a subsidy on the interest of their home loans.

The subsidy is paid monthly, directly into a DHOAS home loan. The amount of subsidy a member receives depends on their subsidy tier level, the loan amount and the subsidised loan limits.



Our DHOAS lending specialists celebrating Australian Military Bank’s win.

## MILITARY REWARDS ACCOUNT

It's been over 18 months since the inception of our flagship everyday transaction account, Military Rewards.

This account is designed to not only reward members but to also give back to the Defence community through the account's unique monthly cents rounding program which contributes spare change to the Defence charities of the member's choosing. The four Defence charities which Australian Military Bank partner with are RSL Defence Care, Legacy, Mates4Mates and Soldier On.

We're pleased to announce that as at 30 June 2017, Australian Military Bank and its members donated over \$61,000 to our charity partners. It's an excellent feat which we hope to continue in the years ahead.

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 ongoing support that these fantastic services can continue to provide much needed assistance to our current and former service men and women.

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

# OVER \$61,000

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



## MEMBER FEEDBACK

We're dedicated to improving our members' banking experience. Over the backend of FY 16-17, we encouraged our members to speak out and let us know their thoughts and suggestions towards our products and services.

Within the past year, we've seen a significant rise in reviews from our members who have been sharing their feedback via email, social media, opinion sites

and our mobile app. With this we've seen a rise in our ratings shown through our Facebook likes, that now exceed 27k, and through customer opinion sites such as Product Review – where our rating has increased by over 2.5 stars.

We're very thankful for our members' feedback and aim to constantly improve our banking products and services.

# AUSTRALIAN MILITARY BANK IN THE COMMUNITY



Team Army Chief Mechanic WO2 Tim McDougall, Personal Banker Brooke Mullavey and Riverina Regional Manager Kimberley Holgate with Team Army Project Manager MAJ Scott Babington in front of the Team Army Display Vehicles “Armygeddon” and “Project Digger”.

Australian Military Bank CEO, John Ford and Regional Manager, Andrew Moebus presenting White Ribbon Australia CEO, Libby Davies a donation raised through the hosting of three White Ribbon Golf Day events in Duntroon, Kapooka and Cerberus.



**WE BELIEVE IN GIVING BACK. AUSTRALIAN MILITARY BANK SPONSORS THE DEFENCE COMMUNITY AND AFFILIATED CAUSES THROUGH VARIOUS EVENTS AND INITIATIVES. HERE IS A SNAPSHOT OF THE YEAR THAT WAS.**



Lending Specialist Craig McGinniskin at National Families Week at Australian Reptile Park.



The men's Army team celebrate as 2017's ADFAR champions



Member Service Officer Stacey Woon and Personal Banker Cherie Kraft aboard the P3 Orion tour.



Lending Specialist Anita Haasmann and Member Service Officer Kailer Appleby at Cairn's DCO day.



# INDEPENDENT AUDITOR'S REPORT

## Independent Auditor's Report to the Members of Australian Military Bank Limited

### Opinion

We have audited the financial report of Australian Military Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2017;
- the Group consolidated and Company statements of profit or loss and other comprehensive income, statements of changes in members' equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

In our opinion, the accompanying financial report is in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2017 and of their financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

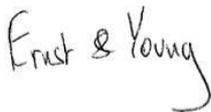
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ernst & Young



Richard Balfour  
Partner  
Sydney  
28 September 2017

## Consolidated and Parent Entity Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	2017	2016
Note	\$'000	\$'000
Interest revenue	2(a) 50,322	48,860
Interest expense	2(c) (24,811)	(24,172)
<b>Net interest income</b>	<b>25,511</b>	<b>24,688</b>
Fee, commission and other income	2(b) 8,136	7,557
Net operating income before expenses	33,647	32,245
<b>Operating Expenses</b>		
Impairment losses on loans to members	2(d) (23)	289
Fee and commission expenses	4,498	3,507
General administration expenses		
– Employees compensation and benefits	12,863	13,019
– Other administration	2,577	2,731
– Information technology	2,341	2,384
– Office occupancy	1,393	1,472
– Depreciation and amortisation	2(e) 608	629
Other operating expenses	1,792	1,695
Total operating expenses	26,049	25,726
<b>Profit before income tax</b>	<b>7,598</b>	<b>6,519</b>
Income tax expense	3 2,560	1,773
<b>Profit after income tax</b>	<b>5,038</b>	<b>4,746</b>
<b>Other comprehensive income, net of income tax</b>		
Items that will be reclassified subsequently to profit or loss		
Gains/(losses) on cash flow hedges taken to equity	(38)	(44)
<b>Total other comprehensive income, net of income tax</b>	<b>(38)</b>	<b>(44)</b>
<b>Total comprehensive income for the period</b>	<b>5,000</b>	<b>4,702</b>

## Consolidated and Parent Entity Statement of Financial Position as at 30 June 2017

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Cash and cash equivalents	4	24,062	43,733
Due from other financial institutions	5	148,160	200,180
Receivables	6	4,104	5,316
Prepayments		97	92
Loans to members	7(a)	1,064,823	877,534
Available-for-sale investments	9	9,700	2,209
Property, plant and equipment	10	1,650	1,053
Deferred tax assets	11	800	819
Intangible assets	12	591	861
<b>Total assets</b>		<b>1,253,987</b>	<b>1,131,797</b>
<b>Liabilities</b>			
Borrowings from financial and other institutions	13	36,533	44,787
Deposits	14	1,109,037	986,187
Derivatives	15	64	63
Creditors, accruals and settlement accounts	16	12,856	10,741
Taxation liabilities	17	846	398
Provisions	18	1,312	1,282
Long term borrowings	19	5,000	5,000
<b>Total liabilities</b>		<b>1,165,648</b>	<b>1,048,458</b>
<b>NET ASSETS</b>		<b>88,339</b>	<b>83,339</b>
<b>Members' equity</b>			
General reserve for credit losses	20	1,506	1,506
Cash flow hedge reserve		(82)	(44)
Retained earnings		86,915	81,877
<b>Total members' equity</b>		<b>88,339</b>	<b>83,339</b>

## Consolidated and Parent Entity Statement of Changes in Members' Equity for the year ended 30 June 2017

	Retained Earnings \$'000	Reserve for Credit Losses \$'000	Cash Flow Hedge Reserve \$'000	Total \$'000
Balance as at 1 July 2015	77,131	1,506	–	78,637
Profit after income tax	4,746	–	–	4,746
Other comprehensive income	–	–	(44)	(44)
<b>Total as at 30 June 2016</b>	<b>81,877</b>	<b>1,506</b>	<b>(44)</b>	<b>83,339</b>
Balance as at 1 July 2016	81,877	1,506	(44)	83,339
Profit after income tax	5,038	–	–	5,038
Other comprehensive income	–	–	(38)	(38)
<b>Total as at 30 June 2017</b>	<b>86,915</b>	<b>1,506</b>	<b>(82)</b>	<b>88,339</b>

## Consolidated and Parent Entity Statement of Cash Flows for the year ended 30 June 2017

	2017	2016
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Interest received	51,126	48,471
Fees and commissions received	6,060	7,625
Other income	360	(66)
Interest paid	(23,851)	(24,039)
Suppliers and employees	(24,398)	(24,136)
Income taxes paid	(2,093)	(3,504)
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>	<b>7,204</b>	<b>4,351</b>
30(b)		
<b>Inflows (outflows) from other operating activities</b>		
Increase in members' loans (net movement)	(187,413)	(76,684)
Increase in members' deposits and shares (net movement)	122,850	74,272
<b>Net cash flows from operating activities</b>	<b>(57,359)</b>	<b>1,939</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment	2,598	–
Purchase of available for sale investments	(8,397)	(1,302)
Purchase of property, plant and equipment	(240)	(260)
Purchase of intangible assets	(20)	(455)
Other	–	–
<b>Net cash flows from investing activities</b>	<b>(6,059)</b>	<b>(1,953)</b>
<b>Cash flows from financing activities</b>		
<b>Inflows (outflows)</b>		
Decrease in receivables due from other financial institutions (net movement)	52,020	22,177
Increase in borrowings from financial and other institutions (net movement)	(8,254)	(12,873)
Increase in hedging derivatives (net movement)	(19)	19
<b>Net cash flows from financing activities</b>	<b>43,747</b>	<b>9,323</b>
Total net cash increase/(decrease)	(19,671)	9,309
Cash at beginning of year	43,733	34,424
<b>Cash at end of year</b>	<b>24,062</b>	<b>43,733</b>
30(a)		

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 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 2017.

The financial report was authorised for issue on 28 September 2017 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 held to maturity financial assets and derivatives which are stated at amortised cost. 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 2017. 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.

Australian Military Bank has elected to present one set of financial statements to represent both Australian Military Bank as the consolidated and parent entity on the basis that the impact of consolidation is not material to the entity. This applies to all information unless otherwise stated.

### 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);
- 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.

### **Available-for-sale (AFS) Investments**

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.

### **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 using the effective interest rate method. 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 21 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 collective provision based on an "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 high quality corporate 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 creditors, accruals and settlement accounts.

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 5 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

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2016 that had any significant impact on the financial statements of Australian Military Bank.

## r. New or emerging standards not yet mandatory

A number of new Australian Accounting Standards and amendments have been issued or amended but are not yet effective and have not been adopted early by the Consolidated and Parent Entity for the annual reporting year ended 30 June 2017.

- AASB 9 "Financial Instruments" amends the classification, measurement and impairment of financial instruments and general hedge accounting requirements. AASB 9 is not mandatory until 1 July 2018 and replaces AASB 139. The financial impact of this new standard has not yet been quantified.
- AASB 15 "Revenue from Contracts with Customers" contains new requirements for the recognition of revenue and additional disclosures. AASB 15 is not mandatory until 1 July 2018. The impact of these new requirements has not yet been assessed.
- AASB16 "Leases" will replace AASB117 Leases. It requires the lessee to recognise a right of use asset along with the associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. The standard is effective for annual reporting years beginning on or after 1 January 2019. The impact of this new standard has not yet been determined.

2017	2016
\$'000	\$'000

## 2. Income Statement

### a. Interest revenue

Cash and cash equivalents	14	110
Due from other financial institutions	5,132	6,069
Loans to members	45,176	42,681
<b>Total interest revenue</b>	<b>50,322</b>	<b>48,860</b>

### b. Fee, commission and other income

#### Fee and commission revenue

Fee income on loans – other than loan origination fees	937	922
Fee income from members' deposits	2,656	3,465
Insurance commissions	1,654	2,102
Other commissions	837	659
<b>Total fee and commission revenue</b>	<b>6,084</b>	<b>7,148</b>

#### Other income

Dividends received on investments	128	128
Gain on disposal of shares	1,692	–
Miscellaneous revenue	232	280
<b>Total other income</b>	<b>2,052</b>	<b>408</b>

### c. Interest expenses

#### Interest expense on liabilities carried at amortised cost

Deposits from members	22,851	22,318
Borrowings	1,960	1,854
<b>Total interest expense</b>	<b>24,811</b>	<b>24,172</b>

### d. Impairment losses/ (gains)

Increase in provision for impairment	130	2
Bad debts written off directly against profit	399	762
Bad debts recovered	(552)	(475)
<b>Total impairment losses</b>	<b>(23)</b>	<b>289</b>

### e. General administration – depreciation expense includes:

– Plant and equipment	94	93
– Leasehold improvements	224	216
– Amortisation of software	290	320
	<b>608</b>	<b>629</b>

### f. Auditor's remuneration

– Audit fees	109	79
– Other services – taxation	18	18
– Other services – other	29	28
	<b>156</b>	<b>125</b>

2017	2016
\$'000	\$'000

### 3. Income Tax Expense

#### a. The income tax expense comprises amounts set aside as:

Current tax	2,210	1,983
Adjustments for previous years	–	(21)
<b>Total current income tax expense</b>	<b>2,210</b>	<b>1,962</b>

#### Deferred tax

Origination and reversal of temporary differences	–	(189)
Adjustments for previous years	350	–
<b>Total income tax expense in income statement</b>	<b>2,560</b>	<b>1,773</b>

#### b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:

<b>Profit</b>	<b>7,598</b>	<b>6,519</b>
Prima facie tax payable on profit before tax at 30%	2,279	1,956
Sale of Investments	(35)	–
Others	20	–
<b>Subtotal</b>	<b>2,265</b>	<b>2,038</b>
Less		
– Franking rebate	(55)	(55)
<b>Income tax expense attributable to current year profit</b>	<b>2,210</b>	<b>1,983</b>

### 4. Cash and Cash Equivalents

Cash on hand	2,167	1,884
Deposits at call	21,895	41,849
	<b>24,062</b>	<b>43,733</b>

Included within cash and cash equivalents at 30 June 2017 is \$6.104m and \$110 of liquidity and expense reserve respectively (2016: \$3.441m and \$110) held within Artemis Securitisation Trust Repo Series No. 1 (Artemis Trust), which is not immediately available for use in the business.

### 5. Due from Other Financial Institutions

Negotiable Certificates of Deposit	61,860	58,127
Floating Rate Notes	54,510	69,053
Term Deposits <sup>(1)</sup>	31,790	73,000
	<b>148,160</b>	<b>200,180</b>

(1) \$40.8m (2016: \$38.5m) is expected to be received more than 12 months from the reporting date for the consolidated entity

### 6. Receivables

Interest receivable on deposits with other financial institutions	683	1,424
Sundry debtors and settlement accounts	3,421	3,892
	<b>4,104</b>	<b>5,316</b>

2017	2016
\$'000	\$'000

## 7. Loans to Members

### a. Amount due comprises:

Overdrafts and revolving credit	24,904	24,158
Term loans <sup>(1)</sup>	1,040,413	854,293
<b>Subtotal</b>	<b>1,065,317</b>	<b>878,451</b>
Less:		
Unamortised loan origination expenses/(fees)	467	(80)
Unearned income	(22)	(28)
<b>Subtotal <sup>(2)</sup></b>	<b>1,065,762</b>	<b>878,343</b>
Less:		
Provision for impaired loans (Note 8)	(939)	(809)
<b>Total</b>	<b>1,064,823</b>	<b>877,534</b>

(1) Included as part of term loans as at 30 June 2017 are securitised loans of \$36,145 and \$280,400 in Athena Trust and Artemis Trust, respectively (2016: \$23,200 and \$165,383) 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.

During the year, a total of \$168,888 (2016: \$131,917) of variable interest rate loans were transferred from Australian Military Bank to the Trusts, with the book value of the loans transferred equating the fair value of those loans.

(2) \$852.6m (2016: \$702.7m) is expected to be received more than 12 months after the reporting date for the consolidated entity.

### b. Credit quality – security held against loans

Secured by mortgage over real estate	968,258	781,815
Partly secured by goods mortgage	48,558	47,789
Wholly unsecured	48,501	48,847
	<b>1,065,317</b>	<b>878,451</b>

It is not practicable to value all collateral as at the balance date due to the variety of assets and conditions. A breakdown of the risk profile 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%	648,765	512,470
– loan to valuation ratio of more than 80% but mortgage insured	284,832	251,106
– loan to valuation ratio of more than 80% and not mortgage insured	34,661	18,238
<b>Total</b>	<b>968,258</b>	<b>781,815</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.

### c. Concentration of loans by purpose

#### Loans to members

Residential mortgage loans	968,258	781,815
Personal loans	97,059	96,636
	<b>1,065,317</b>	<b>878,451</b>
<b>Loans to corporations</b>	<b>-</b>	<b>-</b>

## 8. Provision on Impaired Loans

### a. Total provision comprises

Collective provisions

**Total Provision**

**2017**  
**\$'000**

**2016**  
**\$'000**

939

809

**939**

**809**

### b. Movement in the provision for impairment

Balance at the beginning of year

Add:

Transfers from profit or loss

**Balance at end of year**

809

807

130

2

**939**

**809**

Details of credit risk management is set out in Note 21.

### c. Impaired loans written off / (recovered)

Amounts written off directly to expense

Bad debts recovered in the period

399

761

552

475

**(153)**

**286**

### d. Analysis of loans that are impaired or potentially impaired by class

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.

	2017		2016	
	Value of impaired loans \$'000	Provision for impairment \$'000	Value of impaired loans \$'000	Provision for impairment \$'000
Loans to members				
Residential mortgages	–	–	–	–
Personal	765	564	929	518
Credit cards and overdrafts	512	375	388	291
Total to natural persons	1,277	939	1,317	809
Corporate borrowers	–	–	–	–
<b>Total</b>	<b>1,277</b>	<b>939</b>	<b>1,317</b>	<b>809</b>

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

	2017			2016		
	Non-Impaired	Impaired	Provision for impairment	Non-Impaired	Impaired	Provision for impairment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
1 to 30 days	27,810	–	–	31,849	–	–
31 to 90 days in arrears	1,013	–	–	747	–	–
91 to 180 days in arrears	–	316	126	–	444	178
181 to 270 days in arrears	–	169	102	–	253	152
271 to 365 days in arrears	–	111	89	–	146	117
Over 365 days in arrears	–	366	366	–	182	182
Over limit facilities over 14 days	–	315	256	–	292	181
<b>Total</b>	<b>28,823</b>	<b>1,277</b>	<b>939</b>	<b>32,596</b>	<b>1,317</b>	<b>810</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 90 days	–
91 days to 180 days	40
181 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

## 9. Available-for-sale Investments

	2017 \$'000	2016 \$'000
– Cuscal Limited	1	907
– Marketplace Lending	9,699	1,302
<b>Total</b>	<b>9,700</b>	<b>2,209</b>

### Disclosures on shares held at cost

#### Cuscal Limited

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies essential banking services to the member organisations which include mutual banks—refer to Note 28.

The shares are able to be traded but within a market limited to other Cuscal members. The volume of shares visibly traded is low with few such transactions in the last 3 years.

During the financial year Australian Military Bank sold some of its Cuscal shares but is not intending to dispose of its remaining shares.

## Marketplace Lending

Australian Military Bank invests via marketplace lending platforms in accordance with the Bank's risk appetite.

Under these agreements, Australian Military Bank provides funding to selected unsecured loan exposures.

As at 30 June 2017, the investment amounted to \$9.699m. The shareholdings in marketplace lending are measured at cost as the fair value could not be measured reliably due to the absence of an actively traded market for these holdings.

<b>2017</b>	<b>2016</b>
<b>\$'000</b>	<b>\$'000</b>

## 10. Property, Plant and Equipment

### a. Fixed assets

Plant and equipment - at cost

Less: accumulated depreciation

**Total plant and equipment**

Leasehold improvements – at cost

Less: accumulated amortisation

**Total leasehold improvements**

5,424	4,660
(4,344)	(4,250)
<b>1,080</b>	<b>410</b>
3,139	2,988
(2,569)	(2,345)
<b>570</b>	<b>643</b>
<b>1,650</b>	<b>1,053</b>

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

	<b>2017</b>		<b>2016</b>	
	<b>Plant and equipment</b>	<b>Leasehold improvements</b>	<b>Plant and equipment</b>	<b>Leasehold improvements</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance	410	643	476	686
WIP movement	675	–	(103)	–
Purchases	89	151	136	173
	<b>1,174</b>	<b>794</b>	<b>509</b>	<b>859</b>
Less				
Asset disposals	–	–	(6)	–
Depreciation	(94)	(224)	(93)	(216)
<b>Balance at end of year</b>	<b>1,080</b>	<b>570</b>	<b>410</b>	<b>643</b>

## 11. Deferred Tax Assets

Deferred tax assets comprise:

- Accrued expenses not deductible until incurred
- Provisions for impairment on loans
- Provisions for employee benefits
- Provisions for other liabilities
- Fixed assets and intangible assets
- Cash flow hedge reserve

	31	25
	282	243
	323	350
	274	258
	(110)	(76)
	–	19
	<b>800</b>	<b>819</b>
	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>

## 12. Intangible Assets

Intangible assets – at cost

Less: accumulated amortisation

	3,335	3,315
	(2,744)	(2,454)
	<b>591</b>	<b>861</b>

### Movement in the asset balances during the year

Opening balance

Purchase

	861	730
	20	455
	<b>881</b>	<b>1,185</b>

Less:

Assets disposed

Amortisation charge

**Balance at end of year**

	–	(4)
	(290)	(320)
	<b>591</b>	<b>861</b>

## 13. Borrowings from Financial and Other Institutions

Loans

Borrowings from other financial institutions

	36,533	23,787
	–	21,000
	<b>36,533</b>	<b>44,787</b>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

## 14. Deposits

Member deposits

– At call

– Term

Deposits from other financial institutions

Members' withdrawable shares

	587,484	518,912
	451,450	356,676
	70,000	110,500
	103	99
	<b>1,109,037</b>	<b>986,187</b>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

## 15. Derivative Financial Instruments

Australian Military Bank is exposed to the financial risk of changes in interest rates to the extent of the repricing profile of Australian Military Bank's statement of financial position. Derivative financial instruments are held for the purpose of managing existing or anticipated risk from this source. Australian Military Bank applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk.

	2017 \$'000		2016 \$'000	
	Notional Principal	Fair Value Liabilities	Notional Principal	Fair Value Liabilities
Interest Rate Swaps designated as cash flow hedges	55,000	64	20,000	63

## 16. Creditors, Accruals and Settlement Accounts

	2017 \$'000	2016 \$'000
Annual leave	680	751
Creditors and accruals	2,588	2,356
Interest payable on borrowings	360	214
Interest payable on deposits	5,694	4,860
Accrual for GST payable	56	61
Sundry creditors	3,478	2,499
	<b>12,856</b>	<b>10,741</b>

## 17. Taxation Liabilities

Current income tax liability	846	398
<b>Current income tax liability comprises:</b>		
Balance – previous year	398	2,317
Less paid – previous year	(801)	(2,018)
Over statement in prior year	(403)	299
Liability for income tax in current year	2,210	1,585
Adjustments for over/under in previous year - P&L	350	–
Less instalments paid in current year	(1,311)	(1,486)
<b>Balance – current year</b>	<b>846</b>	<b>398</b>

## 18. Provisions

Long service leave	397	417
Provisions – other	915	865
<b>Total Provisions</b>	<b>1,312</b>	<b>1,282</b>

## 19. Subordinated Debt

Subordinated Debt	5,000	5,000
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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 intends to fully repay the debt in December 2017.

## 20. General Reserve for Credit Losses

Balance at beginning of year	1,506	1,506
Add: increase/(decrease) transferred from retained earnings	–	–
<b>Balance at the end of year</b>	<b>1,506</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.

## 21. Financial Risk Management Objectives and Policies

### Introduction

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 financial stability, 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 controls assessment and compliance, 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 determines controls that need to be put in place regarding the authorisation of new loans.

The Head of Credit 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 Plan

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.

#### 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.

#### Fair value interest rate risk

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.

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.

#### 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:

	2017	2016
VaR	\$72,814	\$41,083

Australian Military Bank is therefore confident within a 99 per cent confidence level over 365 days that, given the risks as at 30 June 2017, 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 and 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 within the range of 11% to 14% 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 25 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 22.

The ratio of liquid funds over the past year is set out below:

#### APRA Liquid funds to total adjusted liabilities

	2017	2016
Prescribed liquidity %	9.00%	9.00%
% As at 30 June	12.38%	14.90%
Average for the year	13.89%	14.57%
Minimum during the year	12.18%	13.49%

### 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 – Loans

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

Loan Type	2017 \$'000		
	Carrying value	Commitments	Maximum exposure
	\$	\$	\$
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 to natural persons</b>	<b>1,065,317</b>	<b>121,872</b>	<b>1,187,189</b>
	2016 \$'000		
	Carrying value	Commitments	Maximum exposure
	\$	\$	\$
Mortgages	781,815	77,502	859,317
Personal	72,362	1,470	73,832
Credit cards and overdrafts	24,274	25,175	49,449
<b>Total to natural persons</b>	<b>878,451</b>	<b>104,147</b>	<b>982,598</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 24.

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 an 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:	2017 \$'000		
	Carrying value \$	Past due value \$	Provision \$
Cuscal – rated A-1	18,243	–	–
Banks – rated below AAA	140,995	–	–
Credit Unions – rated below AAA	12,984	–	–
<b>Total</b>	<b>172,222</b>	<b>–</b>	<b>–</b>
	2016 \$'000		
	Carrying value \$	Past due value \$	Provision \$
Cuscal – rated A-1	6,618	–	–
Banks – rated below AAA	197,346	–	–
Credit Unions – rated below AAA	39,949	–	–
<b>Total</b>	<b>243,913</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 subordinated debt instruments, 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.

From 1 January 2016, APRA implemented a capital conservation buffer of 2.5% 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.

## 22. 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.

<b>2017</b>	<b>Book Value \$'000</b>	<b>On Demand \$'000</b>	<b>Up to 3 months \$'000</b>	<b>3 – 12 months \$'000</b>	<b>1 – 5 years \$'000</b>	<b>After 5 years \$'000</b>	<b>No Maturity \$'000</b>	<b>Total \$'000</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
Derivatives	64	–	–	–	64	–	–	64
Subordinated Debt	5,000	–	–	5,172	–	–	–	5,172
Creditors	6,054	6,054	–	–	–	–	–	6,054
<b>Total Financial Liabilities</b>	<b>1,156,688</b>	<b>593,538</b>	<b>216,601</b>	<b>313,272</b>	<b>39,559</b>	<b>–</b>	<b>103</b>	<b>1,163,073</b>

<b>2016</b>	<b>Book Value \$'000</b>	<b>On Demand \$'000</b>	<b>Up to 3 months \$'000</b>	<b>3 – 12 months \$'000</b>	<b>1 – 5 years \$'000</b>	<b>After 5 years \$'000</b>	<b>No Maturity \$'000</b>	<b>Total \$'000</b>
Borrowings from financial and other institutions	44,787	–	12,010	8,024	1,014	23,740	–	44,787
Deposits from other financial institutions	110,500	–	88,280	21,778	1,031	–	–	111,089
Deposits from members – at call	519,011	518,912	–	–	–	–	99	519,011
Deposits from members – term	451,450	–	230,342	222,976	12,568	–	–	465,886
Derivatives	63	–	–	–	63	–	–	63
Subordinated Debt	5,000	–	–	–	5,583	–	–	5,583
Creditors	5,074	5,074	–	–	–	–	–	5,074
<b>Total Financial Liabilities</b>	<b>1,035,885</b>	<b>523,986</b>	<b>330,632</b>	<b>252,777</b>	<b>20,259</b>	<b>23,740</b>	<b>99</b>	<b>1,151,493</b>

## 23. 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 2017			
	As at 30 June 2017 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents <sup>(1)</sup>	24,062	24,062	–	–	24,062
Due from other financial institutions	148,160	–	148,942	–	148,942
Receivables <sup>(1)</sup>	4,104	–	4,104	–	4,104
Loans to members	1,065,317	–	1,048,939	–	1,048,939
Available-for-sale Investments	9,700	–	9,700	–	9,700
<b>Total financial assets</b>	<b>1,251,343</b>	<b>24,062</b>	<b>1,211,685</b>	<b>–</b>	<b>1,235,747</b>
<b>FINANCIAL LIABILITIES</b>					
Borrowings	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 <sup>(1)</sup>	6,054	–	6,054	–	6,054
Derivatives	64	–	64	–	64
Subordinated Debt	5,000	–	5,000	–	5,000
<b>Total financial liabilities</b>	<b>1,156,688</b>	<b>–</b>	<b>1,158,696</b>	<b>–</b>	<b>1,158,696</b>

	Carrying value	Fair value as at 30 June 2016			
	As at 30 June 2016 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents <sup>(1)</sup>	43,733	43,733	–	–	43,733
Due from other financial institutions	200,180	–	201,847	–	201,847
Receivables <sup>(1)</sup>	5,316	–	5,316	–	5,316
Loans to members	877,534	–	869,861	–	869,861
Available-for-sale Investments	2,209	–	2,209	–	2,209
<b>Total financial assets</b>	<b>1,128,972</b>	<b>43,733</b>	<b>1,079,233</b>	<b>–</b>	<b>1,122,966</b>
<b>FINANCIAL LIABILITIES</b>					
Borrowings	44,787	–	44,800	–	44,800
Deposits from other financial institutions	110,500	–	110,693	–	110,693
Deposits from members - at call <sup>(1)</sup>	518,912	–	518,912	–	518,912
Deposits from members - term	356,676	–	352,014	–	352,014
Creditors <sup>(1)</sup>	5,074	–	5,074	–	5,074
Derivatives	63	–	63	–	63
Subordinated Debt	5,000	–	5,000	–	5,000
<b>Total financial liabilities</b>	<b>1,036,012</b>	<b>–</b>	<b>1,031,556</b>	<b>–</b>	<b>1,031,556</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 collective 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 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.

2017	2016
\$'000	\$'000

## 24. Financial Commitments

### a. Outstanding loan commitments

The loans approved but not funded

36,222	25,365
--------	--------

### b. Loan redraw facilities

The loan redraw facilities available

59,850	53,607
--------	--------

### c. Undrawn loan facilities

Loan facilities available to members for overdrafts and line of credit loans are as follows:

Total value of facilities approved

50,566	49,449
--------	--------

Less: Amount advanced

(24,766)	(24,274)
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Net undrawn value

25,801	25,175
--------	--------

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

#### Total financial commitments

121,872	104,147
---------	---------

### d. Computer expenditure commitments

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

2,156	537
-------	-----

Later than one year but not later than five years

5,200	369
-------	-----

Over five years

2,600	–
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9,956	906
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### e. Gross lease expense commitments for operating leases on property occupied by Australian Military Bank

Within 1 year

1,040	981
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Later than one year but not later than five years

4,916	4,528
-------	-------

Over five years

1,332	2,552
-------	-------

7,288	8,060
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Future minimum sub sublease payments expected to be received under non-cancellable sub subleases at the reporting date are \$426,535 (2016: \$27,716 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.

## 25. Standby Borrowing Facilities

Australian Military Bank has a number of borrowing facilities.

	Gross \$'000	Current borrowing \$'000	Net available \$'000
<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>
<b>2016</b>			
Overdraft facility – Cuscal	5,000	–	5,000
Loan facility – Other	50,000	–	50,000
Athena – Westpac committed facility	100,000	23,787	76,213
<b>Total standby borrowing facilities</b>	<b>153,000</b>	<b>23,787</b>	<b>129,213</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.

## 26. 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.

## 27. 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:

	2017 \$'000	2016 \$'000
(a) short-term employee benefits	1,142	1,156
(b) post-employment benefits – superannuation contributions	90	106
(c) other long-term benefits – net increases in long service leave provision	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
<b>Total</b>	<b>1,232</b>	<b>1,262</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 Directors' 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:

	2017 \$'000			2016 \$'000		
	Mortgage secured	Other term loans	Credit cards	Mortgage secured	Other term loans	Credit cards
Funds available to be drawn	–	–	28	–	–	26
Balance	792	–	–	–	–	–
Amounts disbursed or facilities increased in the year	801	–	–	–	–	–
Interest and other revenue earned	25	–	–	–	–	–

	2017 \$'000	2016 \$'000
Other transactions between related parties include deposits from Directors, and other KMP are:		
Total value term and savings deposits from KMP	386	352
Total interest paid on deposits to KMP	3	3

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.

## 28. 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 RediATMs and other 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. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by Australian Military Bank.

### c. 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.

### d. Infosys Technologies Limited

Provides core banking platforms and technology consulting services to the Bank, which will replace the application software provided by Ultradata and computer facility provided by Transaction Solutions.

## 29. 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.

2017	2016
\$'000	\$'000

## 30. Notes to Cash Flow Statement

### a. Reconciliation of cash

Cash on hand	2,167	1,884
Deposits at call	21,875	41,849
<b>Total cash and cash equivalents</b>	<b>24,042</b>	<b>43,733</b>

### b. Reconciliation of cash flows from operations to profit after income tax

Profit after income tax	5,038	4,746
<b>Add (Deduct):</b>		
Depreciation expense	608	629
Increase in provision for income tax	448	(1,919)
Gain on disposal of shares	(1,692)	–
Unrealised fair value movements	(18)	–
Increase in other provisions	30	173
Increase in provision for loans	130	2
Increase/(decrease) in accrued expenses	480	(812)
Increase in interest payable	960	131
Increase in prepayments	(5)	(1)
Decreases in sundry receivables	403	1,600
Decrease in deferred tax assets	19	188
Decrease in other assets	–	1
Decrease/(increase) in interest receivable	803	(387)
	7,204	4,351
Net cash flows from other operating activities		
– Add (Deduct) non revenue operations		
– Reduction in loans balances	(187,413)	(76,684)
– Increase in deposit balances	122,850	74,272
<b>Net cash flows from operating activities</b>	<b>(57,359)</b>	<b>1,939</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.

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## DIRECTORS

RADM Clinton William Thomas AM, CSC, RANR

John Robert Brooks

Jodie Marie Hampshire CFA

Bruce Andrew Robert Scott, CSC

BRIG Jane Maree Spalding, AM

Warren Raymond Thomas

Graham Anthony Weber

## CHIEF EXECUTIVE OFFICER

John Ronald Ford

## AUDITORS

Ernst & Young

Ernst & Young Centre, 200 George Street, Sydney NSW 2000

## IMAGES INDEX

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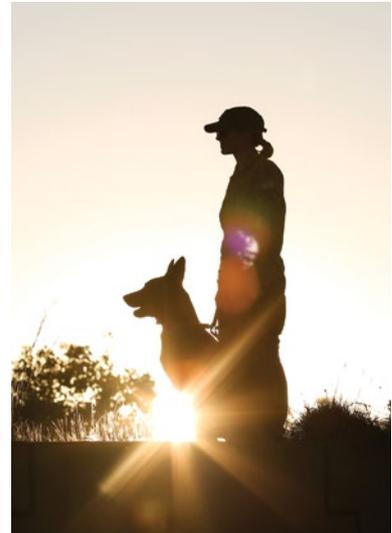
### INSIDE FRONT COVER

Australian Army soldier Corporal Rob Johnson, from the 5th Aviation Regiment in Townsville, guides an MRH-90 helicopter for landing during Operation Hannah in Papua New Guinea.



### DIRECTORS' REPORT

Leading Seaman Aircrewman Aaron Smits with the MRH-90 on the flight deck of HMAS Anzac after conducting first class flight trials.



### INDEPENDENT AUDITOR'S REPORT

Royal Australian Air Force Military Working Dog Handler, Leading Aircraftwoman Heidi Thompson and her dog Dagger are silhouetted as they pause during a sunset patrol at RAAF Base Tindal in the Northern Territory during Exercise Diamond Storm 2017.



**Australian  
Military Bank**

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[australianmilitarybank.com.au](http://australianmilitarybank.com.au)

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