Australian
Military Bank

Annual Report

2019

Serving the Defence
Community 1959 - 2019

60
Years

Australian Military Bank

Serving the Defence Community 1959 - 2019

60 Years

Contents

Chair's Report

2019 marks 60 years of Australian Military Bank proudly serving individuals and family members of our Defence community.
From humble beginnings, commencing back in August 1959 our member owned mutual bank has grown substantially and continues to grow, going from strength to strength. We now serve just fewer than 60,000 customers and manage $1.4 billion in members' assets. Our operations have changed and expanded over this time but we have not lost focus of the most important part of our operations, you – our members.

The way we serve you has evolved dramatically over the last 60 years and we have responded accordingly to changes in members' preferences and technology. Whereas in 1959, all of our member transactions occurred in a branch with the five days a week limitations; today our members have access to their funds 24 hours a day, 7 days a week using their electronic devices. While I expect our banking service will continue to evolve, our commitment to being member focussed will remain.

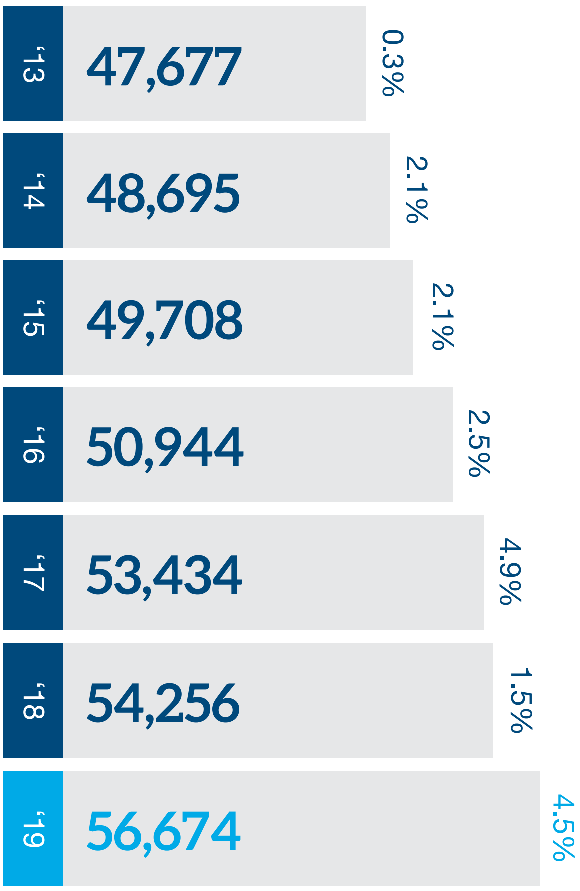
> "It is my pleasure to provide you this report in our milestone 60th year of operation."

Financial Results

This has been another year of consistent performance for Australian Military Bank with our net profit after tax above budget at $4.2 million. The Bank's total assets grew to $1.4 billion representing an increase of 3 percent for the year, total capital reserves grew to $95.8 million and our liquidity position remains strong with a diverse range of sources. Nonetheless, one-off assurance costs did have an adverse impact in the year's results but these are not expected to reoccur. Our continued focus on a strong financial position and sound asset quality form the foundations of a strong bank and positions us well for the future.

We have invested decisively in modern and open banking technology in support of our digital first strategy. We expect this investment to positively influence our efficiency in delivering member services and lower our cost of operations. With the banking system conversion fully behind us now we expect to reap the benefits of a more efficient platform.

Member Growth Year on Year



Operations

Reflective of the broader Defence Community, we predominantly serve a younger demographic who are technologically inclined. In early 2018 we acted decisively by converting to a modern and open banking system. This new technology platform has now been fully bedded down and is delivering benefits to the membership, positioning the Bank well for the future. Member usage patterns confirm members have embraced our mobile app (mobile banking registration up by 88 percent). The 1,224,828 real time alerts issued to members over the last 12 months have kept you better informed about your banking affairs and helped to improve security. The corollary of this is that fewer members are visiting branches and using cheques and cash in general. This has led to the closure of three branches experiencing low member patronage in 2018/19. Our twenty nine on base ATM's, which are free to members, remain but are experiencing less usage as cards increasingly replace cash.

The modern architectural design of our new technology has allowed the Bank to become an early participant in Comprehensive Credit Reporting (CCR) for all credit products. CCR ensures that a prospective borrower's positive repayment history is taken into account when assessing loans (unlike the old negative reporting system). This helps the Bank to exercise its responsible lending obligations and provides a fairer outcome to members.

At today's Australian Military Bank, prospective and existing members can now open memberships and accounts online real time due to the straight through processing of our new systems. Every night and every day members are opening new accounts and transferring money to suit their needs. While our staff standby to assist and advise our members in relation to their banking services, over 40 percent of all new accounts are opened safely and securely today without any human intervention. We expect this number to grow over time as it reflects the increasing preference for our members to bank at a time, place and device of their choosing. It is these types of technology enabled service developments that will keep your Bank competitive and sustainable in the longer term.

Finally, in early 2019 we introduced the Voice of the Member (VoM) program to gain your feedback in relation to your service experience. This program surveyed 1,270 members immediately following a Bank service interaction in 2018/19 providing us helpful feedback on the service levels we provide to members. The VoM program keeps us accountable to you and I am pleased to report our Net Promoter Score is currently +30 and continues to improve. The Board has decided that the Bank's executive management team will remain focussed and aligned with the VoM program to drive good member service outcomes.

As a member owned bank, we seek to make decisions in the longer-term interest of our customers, who are our members.

Defence Community Involvement

Your Bank continues to support the Defence Community in a variety of ways.

We continued to sponsor the Australian Defence Force Australian Rules (ADFAR) who encourage and promote sport among the Australian Defence Community and as such the Bank was once again proud to be a major sponsor of this year's ADFAR games and Men's All-stars.

In addition, your Bank was proud to once again sponsor 'The Long Ride'. All attendees were encouraged to discuss the issue of prostate cancer, bringing into focus this important health issue, especially to the rural and regional stops along the way. This year, participants departed from around Australia to arrive in Darwin. Australian Military Bank was on hand to welcome riders on arrival.

With the combination of members loose change, matched by the Bank's donations; we have donated over $163,000 to our Military Rewards Account Charity Partners being Legacy, Mates4Mates, RSL DefenceCare and Soldier On. These contributions provide much needed assistance.

Your Bank also supports the White Ribbon cause by holding fund raising golf days at Cerberus, Kapooka and Duntroon. Participants raised a total of $21,000. White Ribbon is a global movement of men and boys to end violence against women and girls. Our fund raising and profile-raising events are aimed at helping end domestic violence.

Recent Developments

Unlike some of the banks that appeared in the Hayne Royal Commission, we have not been compromised by conflicts of interest and the relentless drive for profits. As a member owned bank, we seek to make decisions in the longer-term interest of our customers, who are our members. This often involves a balancing act (as depositor and borrower interests can be competing) and this has been further accentuated by the ultra-low interest rate environment we find ourselves in.

As busy as the last 18 months have been for the Bank, as we implemented a once in a generation banking system change; we are confident that we are well placed for the future. With the Federal Government legislating for Open Banking, we see increased opportunities for external parties to partner with our Bank. Your Board will seek to ensure this is done in a secure and beneficial way for our members.

Acknowledgement and Thanks

Your Bank has not reached its 60th year of operation without significant contributions and support from many individuals and organisations.

Let me start again by thanking Defence as our host. We continue to operate branches on major Defence bases and actively contribute to on base life. Your Bank continues to offer the largest on base ATM fleet providing members convenient free access to cash. Our ongoing involvement in the DHOAS program has allowed us to assist qualifying Defence personnel in achieving home ownership.

We acknowledge the important work of ex service organisations and continue to work with the RSL movement though our RSL Money initiative. We look forward to continuing our involvement and support for RSL members.

We also like to call out our insurance partner's performance over the last 12 months. Australian Military Bank assists members to protect their assets by issuing general insurance products on behalf of CGU Insurance Limited. In February 2019, the residents of Townsville suffered terrible and extensive flooding impacting on many Defence families. In the wake of these events we were pleased to provide insurance coverage for 66 affected home, contents and cars – claims totalling over $780,000 (with some properties still being rebuilt). We thank CGU for standing by our members and processing their insurance claims promptly.

Over the last 18 months we have partnered with Infosys in converting our entire banking platform over to the Finacle system which is globally recognised as a leading core banking solution. As we have shared before, this once in a generation change did not go without incident but we have well and truly bedded down the system and it is delivering on its potential. We thank Infosys for their ongoing dedication and commitment to making our conversion a success.

Directors, management and staff (current and former) have all contributed to the growth and success of your Bank. I would like to acknowledge Mr Graham Weber who retired as a director in December 2018. Graham had been on the Board for over 10 years and was Deputy Chairman. The Board acknowledges and thanks Graham for his service to the Bank. At the same time, as part of our ongoing renewal, we welcomed Jonathan Sadleir AM, Michael Crane DSC & Bar, AM and Mr Alan Bardwell to the Board. Our aim is always to have a blend of Defence and specialist experience to ensure appropriate and relevant governance.

For our hard working management and staff, the Board thanks you for your dedication to serving our members and for your drive to be a more agile and responsive organisation.

Finally, I thank you once again for being a member of Australian Military Bank. We look forward to continuing to serve you.

John Robert Brooks
Chair

Message from the CEO

When I first arrived in 2013 members would phone us to do business and we would direct them back to the branches that they could no longer access (due to base access restrictions). Today we are far more convenient to deal with, for both serving and non serving personnel, as all accounts and services can be opened and operated online at a time and place of our member's choosing. This digital transformation helps the Bank to be more efficient which enables us to sustain competitive pricing for our members.

Key Performance Measures

Balance Sheet Assets

'12	$743.5m	5.3%
'13	$818.6m	10.1%
'14	$950.6m	16.1%
'15	$1,068.0m	12.5%
'16	$1,131.5m	5.9%
'17	$1,253.7m	10.8%
'18	$1,346.2m	7.4%
'19	$1,387.3m	3.1%

Net Member Loans

'12	$609.4m	4.9%
'13	$681.6m	11.8%
'14	$744.1m	9.2%
'15	$800.9m	7.6%
'16	$877.5m	9.6%
'17	$1,064.8m	21.3%
'18	$1,118.1m	5.0%
'19	$1,139.2m	1.9%

Deposits

'12	$550.6m	4.8%
'13	$619.4m	12.5%
'14	$786.6m	27%
'15	$911.9m	15.9%
'16	$986.2m	8.1%
'17	$1,109.0m	12.5%
'18	$1,233.9m	11.3%
'19	$1,240.0m	0.5%

Members' Equity

'12	$66.5m	8.2%
'13	$70.6m	6.3%
'14	$74.6m	5.7%
'15	$78.6m	5.4%
'16	$83.1m	5.7%
'17	$88.1m	6.0%
'18	$93.4m	6.1%
'19	$95.8m	2.5%

Directors' Report

The Directors have pleasure in presenting their report, together with the financial statements of Australian Military Bank, for the financial year ended 30 June 2019 and the auditor's report thereon.

John Robert Brooks

Director from 14 August 2000

Qualifications

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

Experience and Responsibilities

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

Jodie Marie Hampshire, CFA

Director from 1 July 2015

Qualifications

- Bachelor of Commerce
- CFA Charterholder
- Graduate Australian Institute of Company Directors

Experience and Responsibilities

- 15 years in Investment Management and Investment Consulting. Experience across three countries in strategy, business financials, organisational design, HR, legal, compliance and business management
- 5 years as Founder and Director of own business
- Managing Director, Australia for Russell Investments with responsibility for a team of professionals who deliver investment and superannuation services to clients with total assets of over $30 billion
- Mutual Bank Director for 4 years
- Deputy Chair of Australian Military Bank Board
- Past Chair of the Australian Military Bank Risk Committee

Alan Bardwell

Director from 1 April 2019

Qualifications

- Member of the Institute of Chartered Accountants Australia and New Zealand
- Senior Fellow of the Financial Services Institute of Australasia (FINSIA)
- Graduate Member of the Australian Institute of Company Directors
- Bachelor of Arts (Honours) Economics (Accounting)

Experience and Responsibilities

- Over 35 years in the Banking and Finance industry including 16 years at Citigroup and 10 years at ASX. Executive positions included Chief Financial Officer, Chief Risk Officer and Region (Asia) Audit Director
- Currently Chairman at RT Health and Ku-ring-gai Financial Services Limited, Non-executive Director at FINSIA, Chairman of the Market Supervision Compliance Committee at the Sydney Stock Exchange and consultant for The Risk Board
- Chair of Australian Military Bank Risk Committee

Sean Patrick FitzGerald

Director from 25 May 2018

Qualifications

- Graduate Member of the Australian Institute of Company Directors
- Certificate IV Finance and Mortgage Broking
- Diploma Finance and Mortgage Broking
- Member of the MFAA

Experience and Responsibilities

- Australian Military Bank Director
- Director of P&N Bank Financial Planning for 4 years
- 20 years in retail banking with P&N Bank, NAB, CBA and First Australian Building Society
- Chair of Australian Military Bank Remuneration Committee
- Member of the Australian Military Bank Audit Committee

Bruce Andrew Robert Scott, CSC, ADC

Director from 13 November 2013

Qualifications

- Graduate Member of the Australian Institute of Company Directors
- Graduate of Command and Staff College
- Member of the Australasian Mutuals Institute

Experience and Responsibilities

- Mutual Bank Director for 6 years
- 42 years service and experience in the Australian Army
- Chair of Australian Military Bank Audit Committee
- Chair of the Australian Military Bank Renewal Committee
- Director Shooting Australia
- Chairman North Queensland Rifle Association
- Colonel Commandant of the Royal Queensland Regiment
- Honorary Aide-de-Camp to the Governor General of Australia

Graham Anthony Weber

Director from 1 September 2008 to 31 December 2018

Qualifications

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

Experience and Responsibilities

- 6 years in Accounting Firms and Advisory Services
- 24 years in State and Commonwealth Agencies in Financial Management, budgeting and performance reporting
- Currently Chief Finance Officer – Air Force
- Mutual Bank Director for 10 years
- Past Deputy Chair of the Australian Military Bank Board
- Past Member of the Australian Military Bank Executive Committee
- Past Member of the Australian Military Bank Audit Committee

Jonathan Sadleir AM

Director from 1 July 2018

Qualifications

- Principle Warfare Officer Surface Warfare and Advanced Navigation
- Bachelor of Arts in History
- Graduate Diploma in Management
- Graduate Diploma in Maritime Management & Logistics
- Graduate Certificate in International Maritime Studies
- Australian Command & Staff Course
- MBA – Maritime Logistics and Port Management
- Selected as the Australian representative to attend the Royal College of Defence Studies, United Kingdom – Grand Strategy & Wicked Problem Resolution
- Australian Institute of Company Directors Course

Experience and Responsibilities

- Chief Strategy Officer CEA
- COO of Secora
- Former Commodore in the Royal Australian Navy
- Chief of Staff to Navy Strategic Command
- Commissioning Commanding Officer of HMAS Canberra
- Director Navy Continuous Improvement
- Commanding Officer of HMAS Parramatta
- Deputy Director Global Military Commitment for the Vice Chief of Defence Force – Chief of Joint Operations
- Honoured by the Governor General with a Commendation for Distinguished Service in Warlike Operations
- Member of the Order of Australia
- Member of the Australian Institute of Company Directors
- Industry experience in Defence, Government, Infrastructure and Complex Asset Management –Mining, Infrastructure, Navy, Maritime Infrastructure and Joint Environments
- Member of the Australian Military Bank Risk Committee
- Member of the Australian Military Bank Remuneration Committee
- Board Member of Sir Frederick Banting Foundation

Michael Crane DSC & Bar, AM

Director from 1 July 2018

Qualifications

- Graduate Member Australian Institute of Company Directors
- Graduate Mt Eliza General Management Program
- Graduate Harvard Club of Australia Leadership Program
- Master of Arts (Strategic Studies)
- Graduate Diploma in Defence Studies
- Bachelor of Science (Honours)
- Graduate United Kingdom Higher Command and Staff Course
- Graduate Centre for Defence and Strategic Studies
- Graduate Joint Services Staff College
- Graduate Army Command and Staff College

Experience and Responsibilities

- Member Australian Military Bank Risk Committee
- Member Australian Military Bank Renewal Committee
- Director The Order of Australia Association
- Chair The Order of Australia Association (ACT Branch)
- President United Services Institute of the ACT
- 37 years in the Australian Army including two tours commanding Australian Forces in the Middle East

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
- Advanced Diploma of Superannuation
- Fellow of INSTIL
- Member of the Association of Superannuation Funds of Australia Limited

Experience and Responsibilities

- Chief Executive Officer – Australian Military Bank
- 30 years management experience in Banks, Building Societies and Credit Unions
- Company Secretary from 28 January 2014
- Director of Shared Lending Pty Ltd
- Grazier

Joa de Wet

Qualifications

- Chartered Accountant

Experience and Responsibilities

- Over 22 years experience in Financial Services
- Head of Finance at Australian Military Bank since January 2017
- Company Secretary from 2 February 2017

Meetings Attended

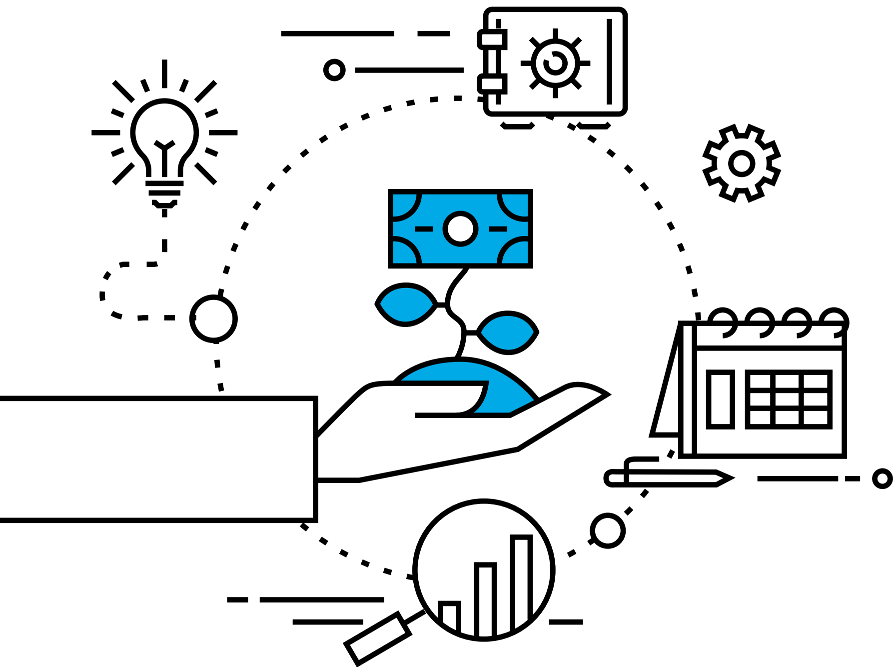
Board Committee Meetings

Directors	Board Meetings		AGM		Board Governance		Audit		Risk		Renewal		Renumeration	
	H	A	H	A	H	A	H	A	H	A	H	A	H	A
John Brooks	10	10	1	1	6	5	3	3	2	2	3	3	1	1
Alan Bardwell[2]	2	2	-	-	-	-	-	-	1	1	-	-	-	-
Michael Crane	10	9	1	1	-	-	-	-	4	4	3	3	-	-
Sean FitzGerald	10	10	1	1	-	-	6	6	-	-	-	-	1	1
Jodie Hampshire	10	9	1	1	-	-	-	-	4	4	-	-	1	1
Jonathan Sadleir	10	8	1	1	-	-	-	-	4	4	-	-	1	1
Bruce Scott	10	10	1	1	-	-	6	6	-	-	3	3	-	-
Graham Weber[1]	5	5	1	1	6	5	3	3	-	-	-	-	-	-

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

[1] Board Director from 1 July to 31 December 2018

[2] Board Director from 1 April 2019



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 2019, Directors have received total remuneration of $408,995 (2018 $408,187) during the financial year.

Indemnity Of Directors And Officers

Australian Military Bank has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability and legal expenses, as such disclosure is prohibited under the insurance contract.

Principal Activities

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

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

Operating Results

The profit of Australian Military Bank for the year after providing for income tax was $4.2 million (2018 $5.2 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 30.

Rounding

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

Board Resolution

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

John Robert Brooks
Chair
25 September 2019

Jodie Marie Hampshire
Deputy Chair
25 September 2019

Directors' Declaration

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

1. The financial statements and notes of Australian Military Bank Limited and its controlled entities are in accordance with the Corporations Act 2001, including

    (a) giving a true and fair view of its financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

    (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. There are reasonable grounds to believe that Australian Military Bank Limited will be able to pay its debts as and when they become due and payable.

3. The financial statements comply with International Financial Reporting Standards as stated in Note 1.

Signed in accordance with a resolution of the directors:

John Robert Brooks
Chair

25 September 2019

Easy

to do banking with

28
Branches/Kiosks

29
ATMs

24/7
Online Banking

+25
NPS Score

Modern

with our services

Digital Enhancements

Since our conversion to the Infosys Finacle Digital Banking suite in February 2018, the Bank has undertaken significant efforts to implement various enhancements that improve functionality and security.

Currently, the Bank has over 30,263 members registered for online banking, with 4.1million+ logins and 1,224,828 real time alerts issued in FY 2019.

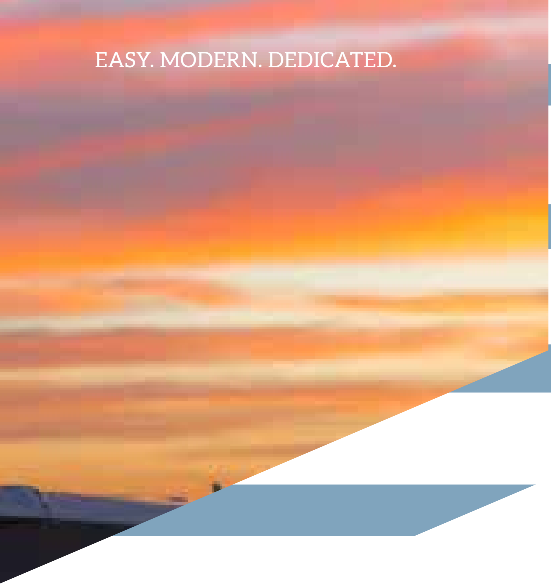
Some of the digital enhancements made during FY 2019 include:

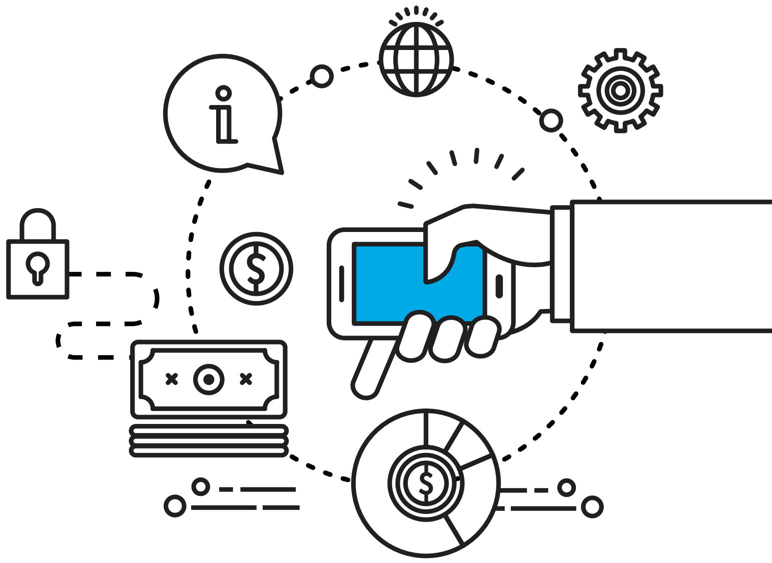
- Pending transactions viewable in mobile banking,
- Ability to customise/edit account names in online banking,
- View 'advance amount' on loan accounts through online banking,
- All products available to apply online – either through online banking or directly via the website,
- Digital onboarding – ability for prospective members to open a membership and account (selected Everyday Transaction or Savings Accounts) through online banking.

26,368
Internet Banking registrations

20,290
Mobile Banking registrations

1,002,634
Total website visits





Australian Military Bank CEO, John Ford, said "the ability of existing and prospective members to open accounts online real time is a critical part of our digital first strategy. We appreciate people want the convenience of being able to easily open accounts online at a time of their choosing. Our new mobile app on boarding service makes this possible in under two minutes and performs all the necessary identity checks real time."

This latest advance comes immediately after the Bank went live in July with Comprehensive Credit Reporting (CCR). Ford said "the Bank's ability to perform responsible lending is enhanced with the introduction of CCR for all credit products. Our technology investments over the last 18 months are delivering important benefits and today Australian Military Bank (powered by Finacle) is one of the most advanced niche banks in Australia."

Voice of the Member

In early 2019 the Bank began engaging members for their feedback regarding their experience with us. The responses gathered are used to help improve the products and services offered to you. We're dedicated to providing members with better quality services, lower fees and competitive interest rates.

From January 2019 the Bank issued 1,270 email surveys to members. By the conclusion of FY 2019, the Bank achieved an overall NPS score of +25 and currently it is +30.

Throughout FY 2020 the Bank aims to implement many of the suggestions offered by you, our members, to ensure we continue to enhance our product and service offerings in line with our members' needs and expectations.

Together we have raised over $163,000 for our Defence charity partners

Dedicated

to the Defence Community

Highlights 2018-2019

Your Military Rewards Account contributions

The Military Rewards Account has made it easy for members to give back to the Defence community with monthly donations through our cents gifting program.

With the Bank matching contributions since account inception in 2015, together we have raised over $163,000 for our Defence charity partners, Legacy, Mates4Mates, RSL DefenceCare and Soldier On. We'd like to take the opportunity to thank our Military Rewards Account holders on behalf of our Defence charity partners.

2019 ANZAC Challenge

This year the Men's All-Star Team took part in the annual ANZAC Challenge against the 'Combined National Emergency Services Aces'. The Men's All-Stars side comprises of standout performers from the National Carnival – which is made up of teams representing Navy, Army and Air Force personnel.

On April 26th, the Men's All-Stars competed in the ANZAC Challenge at Adelaide Oval. The match was the curtain raiser for the AFL ANZAC Round clash between Port Adelaide and North Melbourne. In what was a competitive affair, the ADF Aussie Rules All-Stars went down to the Australian Combined Emergency Services Aces 10.12.72 to 7.3.45.

National ADFAR Carnival 2019

The 'Australian Defence Force Aussie Rules' (ADFAR) group has been a long-standing and productive organisation managed by serving Defence Force personnel. Via the National ADFAR Carnival, sides representing Navy, Army and Air Force (both men's and women's), compete in a week-long round robin competition.

The National ADFAR Carnival was held in Melbourne from 16-23 March. This year, Army reigned victorious across both men's and women's categories.

Australian Military Bank is a long time supporter of ADFAR and their commitment to providing opportunities to Defence Force personnel to engage in avenues that bring together a competitive spirit matched with great feeling of comradery across Navy, Army and Air Force representatives.

To show our support for the Invictus Games, the bank committed to match every dollar donated by members. Collectively, Australian Military Bank along with members raised a total of $5,000.

Invictus Games, Sydney 2018

We were honoured to fundraise in aid of the Invictus Games, held in Sydney between 20-27 October 2018, which helped provide a long-term positive impact on the lives of those competing as well as their families and friends.

To show our support for the Invictus Games, the bank committed to match every dollar donated by members. Collectively, Australian Military Bank along with members raised a total of $5,000. We would like to sincerely thank all members who donated to the Games.

Long Ride

We're proud to have sponsored the 2019 'Long Ride', an initiative which aims to raise awareness of Prostate Cancer and Men's Health.

On 10 May, ACT, NSW and VIC riders who participated in this year's Long Ride congregated at Sir Thomas Blamey Square, prior to their departure to Darwin. By 18 May, having travelled over 4,000km, riders completed the final leg of their journey, departing from Coolalinga and crossing the finish line in Darwin. Our staff in attendance were honoured to be a part of such an inspiring event, welcoming the riders into town.

Our commitment to White Ribbon

Australian Military Bank presented White Ribbon with a total donation of $21,000 following a number of Bank led charity events. These proceeds were gathered across three White Ribbon Golf Days hosted by the Bank in late 2018; of which a majority of participants were members of the Defence Community. These events aimed to bring further awareness to White Ribbon, a global movement to speak out and act to prevent men's violence against women.

Our sincere thanks to the ADF for their ongoing support to our fundraising events. Australian Military Bank is proud to support White Ribbon.

Celebrating 60 YEARS

Australian Military Bank

We've been helping the Australian Defence community make the most of their money since 1959. As Australia's longest serving Defence financial institution, we appreciate the unique aspects of life in the Defence.

A few key milestones over the past 60 years include:

1959 to 1969

1959 – Founded as the Navy (Civil Staff) Co-op. Ltd (NSW).

During a time when financial institutions were prioritising profits and not members, the Navy supply staff at Garden Island decided they would form a credit union to benefit the Navy community. The credit union was run by volunteers at the time located on several supply depots, which kept operational costs low for members to reap the benefits.

1960 – 160 members; to the value of 13,000 pounds. 10,200 pounds in funds invested.

At the time of the Bank's first annual general meeting, 160 memberships proved the necessity of the credit union to the Navy community.

1969 to 1979

1971 – Expansion of memberships to civilian employees of Army and RAAF in New South Wales. (549 total members).

The credit union embarked on a growth strategy, by increasing their memberships, however it remained a Navy specific credit union.

1975 – Membership extended to all serving members of the Navy Australia-wide and the name was changed to Navy Defence Credit Union.

The name change and national Navy membership expansion can be credited to the Bank's increase in popularity due to their dedication to customer service.

1979 to 1989

1983 – Name changed to Australian Defence Credit Union (ADCU), after the transfer of operations of the Army Defence (NSW) Credit Union.

With this transfer, brought about the logo change as well as membership expansion to serving Army and RAAF personnel.

AUSTRALIAN DEFENCE CREDIT UNION LTD

1989 to 1999

1991 – Lavarack Branch: new premises officially opened.

With ADCU's continued growth, this led to yet another key branch opening in Lavarack, for the Defence personnel located in the Townsville community.


COURIER

AUSTRALIAN DEFENCE CREDIT UNION NEW PREMISES OFFICIALLY OPENED

1995 – Rebranding of ADCU logo.

This branding showcased the beloved military star which is a nod reaffirming the commitment the credit union has to Defence.

1999 to 2009

2000 – Expansion into ten RAAF Bases.

ADCU's expansion into ten RAAF bases brought its total branches to 44 Australia-wide. ADCU was also an early adopter of new products and services including banking and online savings accounts.

2008 – Selected by Department of Defence as one of three DHOAS Home Loan providers.

This change allowed the Defence community to access subsidised DHOAS Home Loans from a Bank which had always kept their member's interest at heart.

2009 to 2019

2009 – 50th Anniversary.

ADCU celebrated its 50th anniversary with inclusive events through out Australia.

2014 – Launch of RSL Money.

RSL Money is AMB's White label Product that the Bank launched at the Australian War Memorial in March 2014. RSL Money is about helping the RSL to promote the badge and the brand out into the broader community

2019 – Achieved $163,000 of charity donations via our MRA account.

The Military Rewards Account has made it easy for members to give back to the Defence community and our charity partners by donating spare change. With the Bank matching our members 'cents gifting' program, since the fruition of the MRA account in 2015, together we have raised over $163,000 for our Defence charity partners, Legacy, Mates4Mates, RSL DefenceCare and Soldier On.

2018 – Launch of new Core Banking & Digital Banking offerings.

The Bank was able to compete with the technology service levels of other Banks, by offering 24/7 Online Banking.

2017 – Reselected by Department of Defence as a DHOAS Home Loan Provider.

Defence
HOME OWNERSHIP
ASSISTANCE
SCHEME

2016 – 50,000 Memberships achieved.

2015 – Name changed to Australian Military Bank.

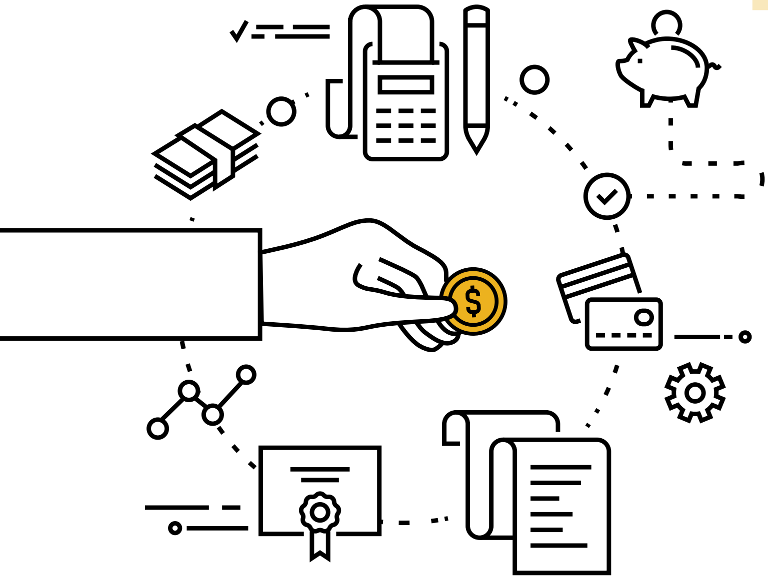
This change was not just a change in name but an operational change from a credit union to a bank.

"I have banked with the Australian Military Bank for approx 40 years and have found them to be honest, helpful and when you need a friendly ear they will listen and help you solve your banking problem."

Joy Newman

Serving the Defence Community
1959 - 2019

RSL money



RSL Money

Launched in early 2014, RSL Money is a joint initiative between the Returned & Services League of Australia (RSL) and Australian Military Bank.

It is Australia's only range of banking products that help support the sustained growth of the RSL organisation. We have partnered together to provide a range of low cost, high value banking products that can make a real difference to the RSL and greater Defence community.

RSL Money offers a range of competitive products suited to the needs of the broader RSL organisation – inclusive of special Term Deposit rates which offer an additional 0.10% p.a. interest on Australian Military Bank Term Deposit options.

Throughout FY 18-19, RSL Money continued its dedication to the wider RSL organisation with a presence at several state conferences around the country. In addition, sponsoring a range of initiatives including the RSL ANZAC Bears campaign.

Ann Roach is pictured here with RSL WA's State President Mr. Peter Aspinall AM.

Independent Auditor's Report and Independence Declaration

KPMG

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

To the Directors of Australian Military Bank Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Brendan Twining

Partner

Sydney

25 September 2019

Independent Auditor's Report

To the Members of Australian Military Bank Limited

Opinions

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

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

- giving a true and fair view of the ***Group*** and ***Company's*** financial position as at 30 June 2019 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statement of financial position as at 30 June 2019;
- Statement of profit or loss and other comprehensive income, Statement of changes in members' equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinions

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

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

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

Other Information

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

KPMG

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

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

• preparing Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*

• implementing necessary internal control to enable the preparation of the Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and

• assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

• to obtain reasonable assurance about whether the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and

• to issue an Auditor's Report that includes our opinions.

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

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

KPMG

KPMG

Brendan Twining

Partner

Sydney

25 September 2019

Statement Of Profit Or Loss And Other Comprehensive Income For The Year Ended 30 June 2019

		Consolidated and Parent	
		2019	2018
	Note	$'000	$'000
Interest revenue	2(a)	54,066	54,899
Interest expense	2(c)	(26,078)	(26,624)
Net interest income		**27,988**	**28,275**
Fee commission and other income	2(b)	5,979	6,270
Gain/(loss) from Available for Sale (AFS) securities		-	580
Net operating income before expenses		**33,967**	**35,125**
Operating Expenses			
Impairment losses on loans to members	2(d)	564	1,547
Fee and commission expenses		4,020	4,608
General administration expenses			
• Employees compensation and benefits		13,393	12,492
• Other administration		3,113	2,879
• Information technology		3,043	2,204
• Office occupancy		1,466	1,443
• Depreciation and amortisation	2(e)	945	747
Other operating expenses		1,578	1,732
Total operating expenses		**28,122**	**27,652**
Profit before income tax		5,845	7,473
Income tax expense	3	(1,695)	(2,293)
Profit after income tax		**4,150**	**5,180**
Other comprehensive income, net of income tax			
Items that will be reclassified subsequently to profit or loss Losses on cash flow hedges taken to equity Items (net of tax)		(646)	(41)
Change in fair value of AFS securities (net of tax)		-	396
Loss from AFS securities recycled to profit or loss (net of tax)		-	(168)
Total other comprehensive income, net of income tax		**(646)**	**187**
Total comprehensive income for the year		**3,504**	**5,367**

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

Statement Of Financial Position As At 30 June 2019

		Consolidated and Parent	
		2019	2018
	Note	$'000	$'000
Assets			
Cash and cash equivalents	4	21,833	19,730
Other financial assets	5	195,071	185,811
Receivables and other assets	6	3,604	2,851
Loans to members	7(a)	1,139,186	1,118,053
Other loans	9	20,443	14,533
Property, plant and equipment	10	1,246	1,121
Deferred tax assets	11	1,474	967
Intangible assets	12	2,857	3,182
Taxation assets	16	1,601	-
Total assets		**1,387,315**	**1,346,248**
Liabilities			
Borrowings from financial and other institutions	13	35,000	5,000
Deposits	14	1,239,955	1,233,865
Creditors, accruals and other liabilities	15	15,316	11,960
Taxation liabilities	16	-	661
Provisions	17	1,261	1,319
Total liabilities		**1,291,532**	**1,252,805**
Net Assets		**95,783**	**93,443**
Members' equity			
General reserve for credit losses	18	1,875	1,747
Cash flow hedge reserve		(769)	(123)
AFS fair value reserve		-	228
Retained earnings		94,677	91,591
Total members' equity		**95,783**	**93,443**

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

Statement Of Changes In Members' Equity For The Year Ended 30 June 2019

		Consolidated and Parent				
		Retained Earnings	Reserve for Credit Losses	Cash Flow Hedge Reserve	AFS Fair Value Reserve	Total
		$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2017		86,652	1,506	(82)	-	88,076
Profit after income tax		5,180	-	-	-	5,180
Other comprehensive income						
• Losses on cash flow hedges taken on equity terms (net of tax)		-	-	(41)	-	(41)
• Change in fair value of AFS Securities (net of tax)		-	-	-	396	396
• Gain/(loss) from AFS Securities recycled to profit or loss (net of tax)		-	-	-	(168)	(168)
Total comprehensive income		**91,832**	**1,506**	**(123)**	**228**	**93,443**
Transfer from retained earnings to general reserve for credit losses		(241)	241	-	-	-
Total as at 30 June 2018		**91,591**	**1,747**	**(123)**	**228**	**93,443**
Balance as at 1 July 2018		91,591	1,747	(123)	228	93,443
Adjustment on initial application of AASB 9 (net of tax)	1(c)	(936)	-	-	(228)	(1,164)
Restated balance at 1 July 2018		**90,655**	**1,747**	**(123)**	**-**	**92,279**
Profit after income tax		4,150	-	-	-	4,150
Other comprehensive income						
• Losses on cash flow hedges taken on equity terms (net of tax)		-	-	(646)	-	(646)
Total comprehensive income		**94,805**	**1,747**	**(769)**	**-**	**95,783**
Transfer from retained earnings to general reserve for credit losses		(128)	128	-	-	-
Total as at 30 June 2019		**94,677**	**1,875**	**(769)**	**-**	**95,783**

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

Statement Of Cash Flows
For The Year Ended 30 June 2019

		Consolidated and Parent	
		2019	2018
	Note	$'000	$'000
Cash flows from operating activities			
Interest received		54,437	54,392
Fees and commissions received		5,693	5,999
Other income		292	259
Interest paid		(25,716)	(26,252)
Suppliers and employees		(25,663)	(25,935)
Income taxes paid		(3,787)	(2,757)
Movement in members' loans		(22,475)	(53,218)
Movement in members' deposits and shares		6,090	124,828
Movement in other loans		(5,910)	(4,834)
Net cash flows from operating activities	28(a)	**(17,039)**	**72,482**
Cash flows from investing activities			
Increase in other financial assets		(9,260)	(37,651)
Purchase of property, plant and equipment		(198)	(421)
Purchase of intangible assets		(249)	(2,976)
Net cash flows from investing activities		**(9,707)**	**(41,048)**
Cash flows from financing activities			
Inflows (outflows)			
(Increase)/decrease in hedging derivatives		(1,151)	767
Increase/(decrease) in borrowings from other institutions		30,000	(36,533)
Net cash flows from financing activities		**28,849**	**(35,766)**
Total net cash and cash equivalents increase/(decrease)		2,103	(4,332)
Cash and cash equivalents at beginning of year		19,730	24,062
Cash and cash equivalents at end of year	4	**21,833**	**19,730**

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

Notes To The Financial Statements For The Year Ended 30 June 2019

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 2019.

The financial report was authorised for issue on 25 September 2019 in accordance with a resolution of the Board of Directors.

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 equity securities and derivatives which are stated at fair value. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

This is the first set of Australian Military Bank's annual financial statements in which AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* have been applied. The new standards and their effects are described in Note 1(c).

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 year, 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 2019. 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 (2019 and 2018) and Athena Trust (2018), 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 (2019 and 2018) and Athena Trust (2018), these have not been derecognised.

Therefore, the consolidated and parent financial information are identical. The Athena Trust was terminated during the year ended 30 June 2018.

c. New standards applicable for the current year

The Bank has adopted AASB 15 and AASB 9 from 1 July 2018. Due to the transition method chosen by Australian Military Bank in applying AASB 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements. The adoption of AASB 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by Australian Military Bank. The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 8);
- AFS Assets have been reclassified as amortised cost
- additional disclosures related to AASB 9 (see Note 8); and
- additional disclosures related to AASB 15.

i.AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations.

Australian Military Bank applied AASB 15 on 1 July 2018 retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not materially impacted by the adoption of AASB 15. The impact of AASB 15 was limited to the new disclosure requirements.

ii.AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. The requirements of AASB 9 represent a significant change from AASB 139.The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. As permitted by AASB 9, Australian Military Bank has elected to continue to apply the hedge accounting requirements of AASB 139. The key changes to the accounting policies resulting from its adoption of AASB 9 and the resulting disclosures under AASB 7 are summarised below. The impact of adopting the standard is set out below.

Classification of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). AASB 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale.

Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments but not to equity investments.

Under AASB 9, credit losses are recognised earlier than under AASB 139.

Transition

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively, except as described below:

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for 2018 does not reflect the requirements of AASB 9 and therefore is not comparable to the information presented for 2019 under AASB 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVTPL.
- If a debt security had low credit risk at the date of initial application of AASB 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The following table shows the original measurement categories in accordance with AASB 39 and the new measurement categories under AASB9 for the Bank's financial assets and financial liabilities as at 1 July 2018.

	Measurement Category		Carrying Amount	
	Original AASB 139 category	New AASB 9 category	Original carrying amount under AASB 139 $'000	New carrying amount under AASB 9 $'000
FINANCIAL ASSETS				
Cash and cash equivalents	Loans and receivables	Amortised cost	19,730	19,730
Other financial assets • Negotiable Certificate of Deposits • Floating Rate Notes • Government Bonds • Term Deposits	AFS	Amortised cost	185,790	185,464
Other financial assets • CUSCAL • Shared Lending Pty Ltd	AFS	FVTPL	21	21
Receivables	Loans and receivables	Amortised cost	2,822	2,822
Loans to members	Loans and receivables	Amortised cost	1,118,053	1,118,053
Other loans	Loans and receivables	Amortised cost	14,533	14,533
Total financial assets			**1,340,949**	**1,340,623**
FINANCIAL LIABILITIES				
Borrowings	Amortised cost	Amortised cost	5,000	5,000
Deposits from other financial institutions	Amortised cost	Amortised cost	100,750	100,750
Deposits from members – at call	Amortised cost	Amortised cost	608,729	608,729
Deposits from members – term	Amortised cost	Amortised cost	524,386	524,386
Creditors	Amortised cost	Amortised cost	7,701	7,701
Total financial liabilities			**1,246,566**	**1,246,566**

d. Financial assets and financial liabilities

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.

Policy applicable from 1 July 2018

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, Australian Military Bank's financial liabilities were not impacted by the adoption of AASB 9.

Australian Military Bank's financial liabilities include borrowings, members' deposits, derivative financial instruments and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless Australian Military Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within interest expense, or non-interest expenses.

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 borrowings using the effective interest rate method.

Members' Deposits

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

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.

Classification and measurement of financial assets
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

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:
- amortised cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI)

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.

(i) Business model assessment
The business model reflects how Australian Military Bank manages financial assets in order to generate returns. This is assessed at the level which best reflects the manner in which risk and returns are managed, and information is provided to management. The factors considered in determining the business model include:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the financial assets' performance is evaluated and reported to management;
- how the risks within the portfolio are assessed and managed; and
- the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales.

(ii) Assessment of whether contractual cash flows meet the SPPI test
In making the assessment of whether the contractual cash flows have SPPI characteristics, Australian Military Bank considers whether the cashflows represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically comprises compensation for the time value of money, credit risk and other basic lending costs, such as liquidity risk and administrative costs. Where the contractual terms include exposure to risk or volatility that is consistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be measured at fair value through profit or loss.

In making the assessment, Australian Military Bank considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit Australian Military Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money.

Australian Military Bank is required to differentiate between financial asset debt instruments and financial asset equity instruments.

Financial assets at amortised costs
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash and cash equivalents, and receivables fall into this category of financial instruments.

Australian Military Bank currently holds loans, receivables and other assets, term deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes and government bonds in this category.

Financial assets at Fair Value through Profit or Loss (FVTPL)
Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

This category includes unlisted equity securities – CUSCAL Ltd and Shared Lending Pty Ltd that were previously classified as 'available for sale' under AASB 139.

Loans to members
(i) Basis of recognition and measurement
All loans are initially recognised at fair value, plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans to members are non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that Australian Military Bank did not intend to sell immediately or in the near term.

(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 EIR method.

(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.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Australian Military Bank changes its business model for managing financial assets. There were no changes to any of the business models during the current year.

Policy applicable before 1 July 2018

Classification and measurement of financial assets

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;
- financial assets at fair value through profit or loss (FVTPL); and
- available-for-sale (AFS) financial assets.

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 except for those at FVTPL 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, fees, commission and other income or non-interest expense, except for impairment of loans and receivables which is presented within other 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. Loans and receivables include loans to members and the accounting policy is consistent with the 'Loans to members' policy.

Available for sale (AFS)

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

AFS are measured at fair value unless there is no ability to measure the fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within an AFS reserve within equity, expect 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.

e. Loan Impairment

Policy applicable from 1 July 2018

Australian Military Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments
- loan commitments issued
- loans to members
- other loans; and
- other financial assets.

No impairment loss is recognised on equity investments.

Australian Military Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Australian Military Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. Australian Military Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 1(d)) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is

treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, Australian Military Bank assesses whether financial assets carried at amortised cost are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- contractual payments as either principal or interest and past due for over 90 days;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise (e.g hardship); and
- it is becoming probable that the borrower will enter bankruptcy.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in impairment losses on loans to members in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

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.

Policy applicable before 1 July 2018

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 19 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.

General reserve for credit losses

In addition to the above specific and collective provision, 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. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

Further, stage 1 ECL is attributed to GRCL.

f. Property, plant and equipment

Property, plant and equipment are recognised at cost and 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.

g. 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.

h. Provision for Employee Benefits

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

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

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

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

Annual leave is accrued in respect of all employees on their 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 other liabilities.

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

i. 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.

j. 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.

k. Intangible Assets

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

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

l. 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 GST is charged on some income, 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.

m. 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.

n. 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 judgements 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.

o. New or emerging standards not yet mandatory

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2019, which have not been applied in preparing these financial statements. Those which may be relevant are set out below. The Bank does not plan to adopt these standards early.

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

So far, the most significant impact identified is that the Bank will recognise new assets and liabilities for its operating leases (Note 22(e)). The nature of expenses related to those leases will change when the standard is applied as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on the corresponding lease liabilities. The Bank plans to adopt AASB 16 for the financial year ending 30 June 2020.

The estimated right of use asset is $3 million and the estimated corresponding liability is $4 million as at 1 July 2019.

2. Income Statement

	2019	2018
	$'000	$'000
a. Interest revenue		
Cash and cash equivalents	6	19
Due from other financial institutions	4,691	3,908
Loans to members and other loans	49,369	50,972
Total interest revenue	**54,066**	**54,899**
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	987	931
Fee income from members' deposits	2,556	2,579
Insurance commissions	1,424	1,655
Other commissions	720	846
Total fee and commission revenue	**5,687**	**6,011**
Other income		
Miscellaneous revenue	292	259
Total other income	**292**	**259**
Total fee commission and other income	**5,979**	**6,270**
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Deposits	25,780	25,789
Borrowings	298	835
Total interest expense	**26,078**	**26,624**
d. Impairment losses		
(Decrease)/increase in provision for impairment	(562)	780
Bad debts written off directly against profit	1,380	1,006
Bad debts recovered	(254)	(239)
Total impairment losses	**564**	**1,547**
e. General administration – depreciation and amortisation expense includes:		
• Plant and equipment	188	148
• Leasehold improvements	183	222
• Amortisation of software	574	377
	945	**747**
f. Auditor's remuneration	**$**	**$**
KPMG – Current		
• Audit fees	180,000	190,000
• Other services – taxation	15,500	20,000
• Other services – other	-	82,000
	195,500	**292,000**

3. Income Tax Expense

	2019 $'000	2018 $'000
a. The income tax expense comprises amounts set aside as:		
Current tax provision	1,428	2,486
Adjustments for previous years	-	86
Total current income tax expense	**1,428**	**2,572**
Deferred tax		
Origination and reversal of temporary differences	267	(265)
Adjustment for previous years	-	(14)
Total income tax expense in income statement	**1,695**	**2,293**
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit before tax	5,845	7,473
Prima facie tax payable on profit before tax at 30%	1,754	2,242
Adjustment for the prior year	-	86
Others	(59)	(35)
Subtotal	**1,695**	**2,293**
Income tax expense attributable to current year profit	**1,695**	**2,293**

4. Cash and Cash Equivalents

	2019 $'000	2018 $'000
Cash on hand	1,704	1,913
Deposits at call	20,129	17,817
	21,833	**19,730**

Included within cash and cash equivalents at 30 June 2019 is $4,172,438 and $110,070 of liquidity and expense reserve respectively (2018: $4,995,435 and $110,070) held within Artemis Securitisation Trust Repo Series No. 1 (Artemis Trust), which is a self securitisation for liquidity.

5. Other Financial Assets

	2019 $'000	2018 $'000
Due from other financial institutions		
Negotiable Certificate of Deposits	84,309	-
Floating Rate Notes	57,503	-
Government Bonds	33,452	-
Term Deposits	19,777	-
Equity investment securities designated as FVTPL		
Shared Lending Pty Ltd shareholding	28	-
CUSCAL	2	-
Available-for-sale investment securities		
Negotiable Certificate of Deposits	-	104,933
Floating Rate Notes	-	31,029
Government Bonds	-	29,019
Term Deposits	-	20,809
Shared Lending Pty Ltd shareholding	-	20
CUSCAL	-	1
	195,071	**185,811**

Available-for-sale investments were reclassified on 1 July 2018 under AASB 9 Financial Investments.

6. Receivables and Other Assets

	2019 $'000	2018 $'000
Interest receivable on deposits with other financial institutions	819	1,190
Prepayments	185	29
Sundry debtors and settlement accounts	2,600	1,632
	3,604	**2,851**

7. Loans to Members

Financial assets at amortised cost	2019 $'000	2018 $'000
a. Amount due comprises:		
Overdrafts and revolving credit	20,032	23,317
Term loans [1]	1,120,578	1,095,697
Subtotal	**1,140,610**	**1,119,014**
Add/(Less):		
Unamortised loan origination expenses	598	686
Unearned income	(17)	(10)
Subtotal [2]	**1,141,191**	**1,119,690**

Financial assets at amortised cost	2019 $'000	2018 $'000
Less:		
Provision for impaired loans (Note 8)	(2,005)	(1,637)
Total	**1,139,186**	**1,118,053**
b. Credit quality - security held against loans		
Secured by mortgage over real estate	1,070,512	1,033,401
Partly secured by goods mortgage	31,936	39,021
Wholly unsecured	38,162	46,592
	1,140,610	**1,119,014**
It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:		
Security held as mortgage against real estate is on the basis of:		
• loan to valuation ratio of less than or equal to 80%	811,888	749,780
• loan to valuation ratio of more than 80% but mortgage insured	254,801	274,054
• loan to valuation ratio of more than 80% and not mortgage insured	3,823	9,567
Total	**1,070,512**	**1,033,401**
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	1,070,512	1,033,401
Personal loans	50,066	62,296
Credit cards and overdrafts	20,032	23,317
	1,140,610	1,119,014
Loans to corporations	-	-

(1) Included as part of term loans as at 30 June 2018 were securitised loans of $233,727,530 in Artemis Trust that were consolidated as part of the Group and at the parent entity level did not achieve de-recognition under AASB 9. The amount is $198,559,844 as at 30 June 2019.

(2) $1,032,973,642 (2018: $1,012,297,504) is expected to be received more than 12 months after the reporting date for the consolidated entity.

8. Provision on impaired loans

a. Amounts arising from ECL

The loss allowances as of the year end by class of exposure/asset are summarised in the table below. Comparative amounts for 2018 represent allowance for credit losses and reflect measurement basis under AASB 139.

	Off-Balance Sheet Commitments	Gross Carrying Value	ECL Allowance	Carrying Value	Gross Carrying Value	Provision for Impairment	Carrying Value
	2019	2019	2019	2019	2018	2018	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Loans to members (Note 7)							
Mortgages	68,757	1,070,512	60	1,070,452	1,033,401	-	1,033,401
Personal	3,846	50,066	1,194	48,872	62,296	922	61,374

	Off-Balance Sheet Commitments	Gross Carrying Value	ECL Allowance	Carrying Value	Gross Carrying Value	Provision for Impairment	Carrying Value
	2019	2019	2019	2019	2018	2018	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Credit cards and overdrafts	20,744	20,032	751	19,281	23,317	715	22,602
Total loans to members	**93,347**	**1,140,610**	**2,005**	**1,138,605**	**1,119,014**	**1,637**	**1,117,377**
Other loans (Note 9)							
Marketplace lending	-	20,880	437	20,443	14,615	82	14,533
Total other loans	**-**	**20,880**	**437**	**20,443**	**14,615**	**82**	**14,533**
Other financial assets							
Due from other financial institutions (Note 5)	-	195,041	48	194,993	185,790	-	185,790
Deposits at call (Note 4)	-	20,129	2	20,127	17,817	-	17,817
Total other financial assets	**-**	**215,170**	**50**	**215,120**	**203,607**	**-**	**203,607**
Total	**93,347**	**1,376,660**	**2,492**	**1,374,168**	**1,337,236**	**1,719**	**1,335,517**

An analysis of Australian Military Bank's credit risk exposure per class of financial assets and stage without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	Off-Balance Sheet Commitments	Stage 1 Carrying Value	Stage 1 12 month ECL	Stage 2 Carrying Value	Stage 2 Lifetime ECL	Stage 3 Carrying Value	Stage 3 Lifetime ECL	Total Carrying Value	Total ECL
	2019	2019	2019	2019	2019	2019	2019	2019	2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Loans to members									
Mortgages	68,757	1,063,816	32	6,501	19	195	9	1,070,512	60
Personal	3,846	48,453	444	440	116	1,173	634	50,066	1,194
Overdrafts	20,744	18,509	342	530	114	993	295	20,032	751
Total loans to members	**93,347**	**1,130,778**	**818**	**7,471**	**249**	**2,361**	**938**	**1,140,610**	**2,005**
Other loans	**-**	**20,244**	**199**	**260**	**68**	**376**	**170**	**20,880**	**437**
Other financial assets	**-**	**195,041**	**50**	**-**	**-**		**-**	**195,041**	**50**
Total	**93,347**	**1,346,063**	**1,067**	**7,731**	**317**	**2,737**	**1,108**	**1,356,531**	**2,492**

The reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the table below.

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	2019	2019	2019	2019
	$'000	$'000	$'000	$'000
Loans to members and other loans				
Balance as at 30 June 2018 per AASB 139	-	-	-	1,719
Balance on initial application of AASB 9 – balance as at 1 July 2018	1,247	845	923	3,015
Change in the loss allowance	(230)	(528)	185	(573)
Balance at 30 June 2019	**1,017**	**317**	**1,108**	**2,442**
Other financial assets				
Adjustment on initial application of AASB 9 – balance as at 1 July 2018	40	-	-	40
Change in the loss allowance	10	-	-	10
Balance at 30 June 2019	**50**	**-**	**-**	**50**
Total	**1,067**	**317**	**1,108**	**2,492**

Significant increase in credit risk (Stage 2)

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of instruments, in particular between wholesale and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if:

- For all counterparties: Payments are overdue for 30 days or greater or the Bank is notified of financial difficulty of the borrower.
- Additionally for wholesale counterparties: if the external credit rating of a rated counterparty has deteriorated since initial recognition.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

New exposures are allocated to Credit Grade 1 upon initial recognition, as the Bank does not originate credit-impaired exposures. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Treasury exposures	Retail Lending exposures	All exposures
Data from credit reference agencies, press articles, changes in external credit ratings	Initially allocated to Grade 1 as the bank does not originate credit impaired exposures. May be moved to lower grades based on internally collected data on customer behaviour – e.g. overdue payments or notification of financial hardship	Requests for and granting of hardship variation
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions

Retail

The retail portfolios are comprised of mortgage lending, personal loans, overdrafts and credit cards.

Grading	Weighted-average PD
Grade 1: Low–fair risk (Exposures that are paid up to date or in advance unless Bank judges to be higher risk)	0.25%
Grade 2: Higher risk (Exposures overdue by less than 30 days)	3.67%
Grade 3: Substandard (Exposures overdue by 30-59 days)	27.28%
Grade 4: Doubtful (Exposures overdue by 60-89 days)	70.96%
Grade 5: Default (Exposures overdue by 90 days or greater	100.00%

Generating the term structure of PD

Probability of Default (PD) is an estimate of the proportion of accounts that move from performing to default.

The Bank collects performance and default information about its credit risk exposures analysed by type of product as well as by credit risk grading.

The Bank has collected and analysed historical time series data to generate estimates of the probability of an exposure moving from its current grade to grade 5 (Default) over either a 12-month horizon or the remaining lifetime of the exposure.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of instruments, in particular between wholesale and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if:

- For all counterparties: Payments are overdue for 30 days or greater or the Bank is notified of financial difficulty of the borrower.
- Additionally for wholesale counterparties: if the external credit rating of a rated counterparty has deteriorated since initial recognition.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or financial hardship, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank applies a probation period of six months during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is at least 90 days past due on their credit obligation to the Bank.; or
- it is becoming probable that the borrower will restructure the asset as a result of financial difficulty due to the borrower's inability to pay its credit obligations.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical loss rates for each portfolio over the past 10 years, has estimated relationships between macro-economic variables and credit risk and credit loss.

The key drivers for credit risk for all portfolios are: GDP growth and unemployment rates. Other drivers that were tested but discovered to not have strong correlation with defaults for the Bank include interest rates and housing price movements.

The Bank formulates three economic scenarios: a base case, which assumes that economic conditions will remain substantially unchanged from current conditions; one upside case forecasting moderate economic growth in the short term before stabilising; and one downside stress case forecasting a moderate decline in economic conditions over the forward period. For the year ended 30 June 2019 the Bank determined the probability of each case occurring was: Base case 30%; Upside case 30%; downside case 40%. External information considered includes economic data and forecasts published by governmental bodies and the Reserve Bank of Australia, and selected private-sector economic forecasters.

A review is performed at least annually on the design and expected probability of the scenarios by a committee of the Bank's senior management and technical specialists.

The economic scenarios used as at 30 June 2019 included the following key indicators for Australia for the years ending 31 December 2019 to 2023.

	2019	2020	2021	2022	2023
Unemployment rates	Base 5.4% Upside 5.2% Downside 5.1%	Base 5.4% Upside 5.3% Downside 8.4%	Base 5.4% Upside 5.3% Downside 10.3%	Base 5.4% Upside 5.3% Downside 11.6%	Base 5.4% Upside 5.3% Downside 11.5%
GDP growth	Base 0.00% Upside 1.61% Downside 0.02%	Base 0.00% Upside 2.22% Downside (0.05%)	Base 0.00% Upside 0.00% Downside (0.01%)	Base 0.00% Upside 0.00% Downside 0.00%	Base 0.00% Upside 0.00% Downside 0.02%

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 1(e).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'hardship variations') to maximise collection opportunities and minimise the risk of default. Under the Bank's Collections policy, loan variations are granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of the borrower not being able to meet their obligations when they fall due; there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms; and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity and changing the timing of principal and interest payments.

For financial assets modified as part of the Bank's hardship policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar variations. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, hardship is a qualitative indicator of a significant increase in credit risk and an expectation of hardship may constitute evidence that an exposure is credit-impaired (Note 1(e)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- economic scenarios;
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of loss and recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For the Home Loan, DHOAS Home Loan and Secured Personal Loan portfolios the Bank has observed very few instances of loss over the 10-year observation period. Internal data was considered inadequate for statistical modelling, and for these portfolios a benchmark LGD value is used based on the average LGD values published by the four major Australian banks for similar products.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, EADs are based on current exposure plus potential future amounts that are available to be drawn under the contract.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk. The Bank retains the right to enforce payment of any outstanding exposure after the contractual period has expired. For facilities that remain unpaid after the contractual period has expired, the Bank has applied an expected remaining lifetime of a further 12 months to represent the observed average time that a counterparty would take to repay a facility if they have exceeded their contractual maturity.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, there is no fixed term or contractual period expiry. The Bank can cancel undrawn commitments with immediate effect but this contractual right is not enforced in the normal day-to-day management, usually only when the Bank becomes aware of an increase in credit risk at the facility level. The expected lifetime of these facilities is taken as 36 months, which is the expected time that would be required to repay the facility once the Bank reduces or cancels ongoing credit limits and converts the exposure to a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition; and
- remaining term to maturity;

The groupings are subject to periodic review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

Portfolio	Exposure ($,000)	Benchmark Used - LGD
Mortgages	$1,070,512	Average of four major Australian banks
Secured Personal Loans	$31,936	Average of four major Australian banks

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider.

Loans and investment debt securities that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the Bank believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The amounts disclosed exclude assets measured at FVTPL.

b. Impaired financial assets – Comparative information under AASB 139

	2018 $'000
Total provision comprises	
Specific provisions – loans to members (Note 7)	1.637
Specific provisions – other loans (Note 9)	82
Total provision	**1,719**
Movement in the provision for impairment	
Balance at the beginning of year	939
Add (deduct):	
Transfers from (to) profit or loss	780
Balance at end of year	**1,719**
Details of credit risk management is set out in Note 19.	
Impaired loans written off	
Amounts written off directly to expense	1,006
Bad debts recovered in the period (recognised in other income)	(239)
Net written-off/(recovered)	**767**

Analysis of loans that are impaired or potentially impaired by class

In the note below:

- Impaired loans value is the amount of loan 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.

	Value of impaired loans	Provision for impairment
	2018	2018
	$'000	$'000
Loans to members		
Residential mortgages	-	-
Personal	1,367	922
Credit cards and overdrafts	924	715
Subtotal	**2,291**	**1,637**
Other loans		
Marketplace lending	179	82
Subtotal	179	82
Total to natural persons	2,470	1,719
Total	**2,470**	**1,719**

Analysis of loans that are impaired or non-impaired based on the age or repayment outstanding

	2018		
	Non-impaired	Impaired	Provision for impairment
	$'000	$'000	$'000
1 to 29 days	33,872	-	-
30 to 89 days in arrears	4,817	-	-
90 to 181 days in arrears	-	694	278
182 to 272 days in arrears	-	267	160
273 to 364 days in arrears	-	95	76
365 days in arrears and over	-	490	490
Overdrawn over 14 days	-	924	715
Total	**38,689**	**2,470**	**1,719**

Key assumptions in determining the provision for impairment

In the course of the preparation of the 2018 annual report, Australian Military Bank determined the likely impairment loss on loans that have not maintained repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events Australian Military Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of impairment	% of balance
Up to 89 days	-
91 days to 180 days	40
182 days to 272 days	60
273 days to 364 days	80
365 days and over	100

9. Other Loans

	2019	2018
	$'000	$'000
Marketplace lending	20,880	14,615
Less provision for impaired loans (Note 8)	(437)	(82)
Total	**20,443**	**14,533**

Marketplace lending
Australian Military Bank invests in loans via marketplace lending platforms in accordance with the Bank's risk appetite. Under these agreements, Australian Military Bank provides funding to selected secured and unsecured loan exposures.

10. Property, Plant and Equipment

	2019 $'000	2018 $'000
a. Fixed assets		
Plant and equipment – at cost	5,703	5,232
Less: accumulated depreciation	(4,677)	(4,487)
Total plant and equipment	**1,026**	**745**
Leasehold improvements – at cost	3,073	3,046
Less: accumulated depreciation	(2,853)	(2,670)
Total leasehold improvements	**220**	**376**
	1,246	**1,121**

b. Movement in the asset balances during the year

	2019		2018	
	Plant and equipment $'000	Leasehold improvements $'000	Plant and equipment $'000	Leasehold improvements $'000
Opening balance	745	376	1,080	570
WIP movement	298	-	(574)	-
Purchases	171	27	387	34
	1,214	403	893	604
Less				
Asset disposals	-	-	-	(6)
Depreciation	(188)	(183)	(148)	(222)
Balance at end of year	**1,026**	**220**	**745**	**376**

11. Deferred Tax Assets

	2019 $'000	2018 $'000
Deferred tax assets comprise:		
• Accrued expenses not deductible until incurred	62	74
• Provisions for impairment on loans	747	516
• Provisions for employee benefits	347	341
• Provisions for other liabilities	247	280
• Depreciation on fixed assets and intangible assets	(206)	(146)
• Unrealised loss from AFS investments	-	(98)
• Arising from losses on cash flow hedges	277	-
	1,474	**967**

12. Intangible Assets

	2019 $'000	2018 $'000
Intangible assets – at cost (software)	6,471	6,222
Less accumulated amortisation	(3,614)	(3,040)
	2,857	**3,182**
Movement in the asset balances during the year		
Opening balance	3,182	591
Purchases	249	2,976
	3,431	**3,567**
Less:		
Assets disposed	-	(8)
Amortisation charge	(574)	(377)
Balance at end of year	**2,857**	**3,182**

13. Borrowings from financial and other institutions

	2019 $'000	2018 $'000
Borrowing from other financial institutions	35,000	5,000
	35,000	**5,000**

Current year borrowings from financial institutions consisted of short-term money market placement that matures every 30 or 60 days. Interest rate as at 30 June 2019 is 2.05%. There were no defaults on interest and capital payments on these liabilities in the current or prior year.

14. Deposits

	2019 $'000	2018 $'000
Member deposits		
• At call	609,687	608,627
• Term	508,662	524,386
Deposits from other financial institutions	121,505	100,750
Members withdrawable shares	101	102
	1,239,955	**1,233,865**

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

15. Creditors, Accruals and Other Liabilities

	2019	2018
	$'000	$'000
Annual leave	718	748
Creditors and accruals	1,896	1,896
Interest payable on deposits	6,788	6,426
Accrual for GST payable	-	45
Derivative liability	1,063	123
Sundry creditors	4,851	2,722
	15,316	**11,960**

16. Taxation Liabilities/(Assets)

	2019	2018
	$'000	$'000
Current income tax (asset)/liability	(1,601)	661
Current income tax (asset/liability comprises:		
Balance – previous year	661	846
Less paid – previous year	(1,000)	(1,000)
	(339)	**(154)**
Liability for income tax in current year	1,428	2,486
Adjustments for over/under in previous year	-	86
Less instalments paid in current year	(3,245)	(1,757)
Refund from ATO	555	-
	(1,601)	**661**

17. Provisions

	2019	2018
	$'000	$'000
Long service leave	440	389
Provision for straight line rental lease	821	930
Total Provisions	**1,261**	**1,319**

18. General Reserve for Credit Losses

	2019	2018
	$'000	$'000
Balance at beginning of year	1,747	1,506
Increase in GRCL	1,195	241
Stage 1 assets' ECL attributed to GRCL	(1,067)	-
Balance at the end of year	**1,875**	**1,747**

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.

19. Financial Risk Management Objectives and Policies

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

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

The main elements of risk governance are as follows:

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

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

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

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

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

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

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

The Chief Operating Officer has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to- value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

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

All loans are managed weekly through the monitoring of the scheduled repayments. The status of loans with provisions is reported to the CEO weekly and the Board monthly.

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

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

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

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

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

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

a. Market Risk

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

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

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

Fair value interest rate risk

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

Cash flow interest rate risk

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

The Board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods.

Positions are monitored on a monthly basis and managed using interest rate swaps.

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

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

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

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

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

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

The VaR on the banking book was as follows:

	2019	2018
VaR	$92,609	$75,986

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

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

b. Liquidity Risk

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

Australian Military Bank manages liquidity risk by:

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

Australian Military Bank's policy is to operate with over 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this range the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, borrowing facilities or contingency funding available. Notes 23 and 24 describes the borrowing facilities and contingency funding as at the balance date.

The maturity profile of the financial liabilities based on the contractual repayment terms are set out in Note 20.

c. Credit Risk

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

i. Credit Risk – Member Loans
The analysis of Australian Military Bank's loans by class is as follows:

	2019		
Loan type	Carrying Value	Commitments	Maximum exposure
	$'000	$'000	$'000
Mortgages	1,070,512	74,124	1,144,636
Personal	50,066	3,475	53,541
Credit cards and overdrafts	20,032	20,744	40,776
Total loans	**1,140,610**	**98,343**	**1,238,953**

	2018		
Loan type	Carrying Value	Commitments	Maximum exposure
	$'000	$'000	$'000
Mortgages	1,033,401	69,740	1,103,141
Personal	62,296	4,253	66,549
Credit cards and overdrafts	23,317	23,181	48,112
Total loans	**1,119,014**	**97,174**	**1,216,206**

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 22.

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 credit worthy (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.

The provisions for impaired exposures relate to the loans to members, and other financial assets. 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 counter parties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

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

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

Concentration risk – industry

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

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

ii. Credit risk – liquid investments

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

The credit policy is that liquid 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:

	2019		
Investments with:	Carrying Value $'000	Past due value $'000	Provision $'000
Government bonds – rated Aaa	33,452	-	5
Cuscal – rated A-1	14,777	-	6
Banks – rated below Aaa	146,812	-	37
Credit Unions – rated below Aaa	-	-	-
Total	**195,041**	**-**	**48**

Investments with:	2018		
	Carrying Value	Past due value	Provision
	$'000	$'000	$'000
Government bonds – rated Aaa	29,019	-	-
Cuscal – rated A-1	14,790	-	-
Banks – rated below Aaa	139,981	-	-
Credit Unions – rated below Aaa	2,000	-	-
Total	**185,790**	**-**	**-**

d. Operational risk

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

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

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

e. Capital Management

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

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

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

CET1 capital contains the highest quality and most loss absorbent component of capital, followed by Additional Tier 1 capital, and then followed by Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital Ratio. The minimum CET1 ratio, Tier 1 capital ratio, and Tier 2 capital ratio under APRA's Basel capital adequacy Prudential Standards are 4.5%, 6%, and 8% respectively.

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

APRA also implemented a capital conservation buffer of 1.5% of an ADI's total risk-weighted assets. Capital ratios are monitored against internal capital targets set by the Board that are over and above APRA's minimum capital requirements.

As at 30 June 2019 and 30 June 2018, the Bank's capital ratio complied with its required Prudential Capital Ratio.

20. 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.

	2019							
	Book Value	On Demand	Up to 3 months	3 - 12 months	1 - 5 years	After 5 years	No Maturity	Total
Liabilities	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Borrowings from financial and other institutions	35,000	-	35,075	-	-	-	-	35,075
Deposits from other financial institutions	121,505	-	104,963	16,953	-	-	-	121,916
Deposits from members – at call	609,788	609,687	-	-	-	-	101	609,788
Deposits from members – term	508,662	-	214,777	258,556	41,670	-	-	515,003
Creditors and other liabilities	9,343	8,280	-	-	1,063	-	-	9,343
Total Financial Liabilities	**1,284,298**	**617,967**	**354,815**	**275,509**	**42,733**	**-**	**101**	**1,291,125**

Liabilities	Book Value $'000	On Demand $'000	Up to 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
	2018							
Borrowings from financial and other institutions	5,000	-	-	5,004	-	-	-	5,004
Deposits from other financial institutions	100,750	-	75,430	25,785	-	-	-	101,215
Deposits from members – at call	608,729	608,627	-	-	-	-	102	608,729
Deposits from members – term	524,386	-	232,034	257,861	40,957	-	-	530,852
Creditors and other liabilities	7,701	7,578	-	-	123	-	-	7,701
Total Financial Liabilities	**1,246,566**	**616,205**	**307,464**	**288,650**	**41,080**	**-**	**102**	**1,253,501**

21. 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.

Financial Assets	Carrying Value As at 30 June 2019 '$000	Fair value as at 30 June 2019 Level 1 '$000	Level 2 '$000	Level 3 '$000	Total '$000
Cash and cash equivalents[1]	21,833	21,833	-	-	21,833
Other financial assets	195,071	-	196,758	30	196,788
Receivables[1]	3,775	-	3,775	-	3,775
Loans to members	1,139,186	-	1,137,109	-	1,137,109
Other loans[1]	20,443	-	18,233	-	18,233
Total financial assets	**1,380,308**	**21,833**	**1,355,875**	**30**	**1,377,738**

Financial Liabilities	Carrying Value As at 30 June 2019 '$000	Fair value as at 30 June 2019 Level 1 '$000	Level 2 '$000	Level 3 '$000	Total '$000
Borrowings[1]	35,000	-	35,000	-	35,000
Deposits from other financial institutions	121,505	-	121,711	-	121,711
Deposits from members – at call[1]	609,687	-	609,687	-	609,687
Deposits from members – term	508,662	-	512,338	-	512,338
Creditors and other liabilities[1]	9,343	-	9,343	-	9,343
Total financial liabilities	**1,284,197**	**-**	**1,288,079**	**-**	**1,288,079**

Financial Assets	Carrying Value As at 30 June 2018 '$000	Fair value as at 30 June 2018 Level 1 '$000	Level 2 '$000	Level 3 '$000	Total '$000
Cash and cash equivalents[1]	19,730	19,730	-	-	19,730
Other financial assets	185,811	-	185,790	21	185,811
Receivables[1]	2,822	-	2,822	-	2,822
Loans to members	1,118,053	-	1,117,056	-	1,117,056
Other loans[1]	14,533	-	14,533	-	14,533
Total financial assets	**1,340,949**	**19,730**	**1,320,201**	**21**	**1,339,952**
Financial Liabilities					
Borrowings[1]	5,000	-	5,000	-	5,000
Deposits from other financial institutions	100,750	-	100,846	-	100,846
Deposits from members - at call[1]	608,729	-	608,729	-	608,729
Deposits from members - term	524,386	-	525,732	-	525,732
Creditors and other liabilities[1]	7,701	-	7,701	-	7,701
Total financial liabilities	**1,246,566**	**-**	**1,248,008**	**-**	**1,248,008**

(1) For these assets and liabilities, the carrying value approximates fair value due to their short term tenor.

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 allowance for credit losses.

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

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

Deposits

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

Borrowings from financial and other institutions

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

22. Financial Commitments

	2019 $'000	2018 $'000
a. Outstanding loan commitments		
The loans approved but not funded	4,996	7,125
b. Loan redraw facilities		
The loan redraw facilities available	72,603	66,868
c. Undrawn loan facilities Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	40,776	48,112
Less: Amount advanced	(20,032)	(24,931)
Net undrawn value	**20,744**	**23,181**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**98,343**	**97,174**
d. Expenditure commitments Australian Military Bank has entered into future contractual obligations for which the amount is to be paid over the following periods:		
Within 1 year	1,315	1,977
Later than one year but not later than five years	5,200	5,652
Over five years	1,300	2,600
	7,815	**10,229**
e. Lease expense commitments for operating leases on property occupied by Australian Military Bank		
Within 1 year	1,240	1,170
Later than one year but not later than five years	3,963	5,078
Over five years	-	-
	5,203	**6,248**

Future minimum sub sublease payments expected to be received under non-cancellable sub subleases at the reporting date are $183,455 [2018: $307,388 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.

23. Standby Borrowing Facilities

Australian Military Bank has an overdraft facility and a loan sale facility as follows.

	Gross $'000	Current borrowing/ used $'000	Net available $'000
2019			
Overdraft facility – Cuscal	3,000	-	3,000
Loan facility – Other	50,000	8,900	41,100
Total standby borrowing facilities	**53,000**	**8,900**	**44,100**

	Gross	Current borrowing/ used	Net available
	$'000	$'000	$'000
2018			
Overdraft facility – Cuscal	3,000	-	3,000
Loan facility – Other	50,000	10,519	39,481
Total standby borrowing facilities	**53,000**	**10,519**	**42,481**

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. The Bank has a facility with Bendigo and Adelaide Bank to sell qualifying mortgage loans either individually at origination or by way of a portfolio sale.

24. Contingent Liquidity Arrangements

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.

25. 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:

	2019	2018
	$	$
(a) short-term employee benefits	1,288,954	1,196,643
(b) post-employment benefits – superannuation contributions	93,520	95,552
(c) other long-term benefits – net increases in long service leave provision	13,385	9,659
(d) termination benefits	-	-
(e) share-based payment	-	-
Total	**1,395,859**	**1,301,854**

In the previous table, remuneration shown as short term benefits means (where applicable) wages, salaries and superannuation, 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:

	2019			2018		
	$			$		
	Mortgage secured	Other Term Loans	Credit cards	Mortgage secured	Other Term Loans	Credit cards
Funds available to be drawn	-	-	18,629	-	-	8,000
Balance	1,710,276	-	3,371	774,749	-	-
Amounts disbursed or facilities increased in the year	903,055	-	-	-	-	-
Interest and other revenue earned	66,055	-	2,946	34,725	-	-

Other transactions between related parties include deposits from Directors, and other KMP are:

	2019	2018
	$	$
Total value term and savings deposits from KMP	587,879	420,514
Total interest paid on deposits to KMP	10,340	15,499

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.

26. 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; and

(ii) operates the computer network used to link Visa cards operated through approved ATM providers to Australian Military Bank's Electronic Data Processing systems.

(iii) Australian Military Bank invests part of its liquid assets with Cuscal.

b. Transaction Solutions Pty Limited

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

c. Infosys Technologies Limited

Provides banking platform services and technology consulting services to the Bank.

27. 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.

28. Notes to Cash Flow Statements

	2019	2018
	$'000	$'000
a. Reconciliation of cash flows from operations to profit after income tax		
Profit after income tax	4,150	5,180
Add (Deduct):		
Depreciation and amortisation expenses	945	747
Loss from AFS securities	-	(580)
AASB 9 transition adjustment (tax impact)	400	-
Movement in assets and liabilities		
Decrease in provision for income tax	(2,262)	(185)
(Decrease)/increase in other provisions	(58)	7
Increase in provision for loans	368	698
Increase/(decrease) in accrued expenses	2,334	(1,454)
Increase in interest payable	362	372
(Increase)/decrease in prepayments	(156)	68
(Increase)/decrease in sundry receivables	(968)	1,527
Increase in deferred tax assets	(230)	(167)
Increase in loans balances	(22,475)	(53,218)
Increase in deposit balances	6,090	124,828
Increase in other loans	(5,910)	(4,834)
Decrease/(increase) in interest receivable	371	(507)
Net cash from flows operating activities	**(17,039)**	**72,482**

b. Reconciliation of liabilities arising from financing activities

	Borrowing from financial institutions	Derivatives	Total
	$'000	$'000	$'000
Opening balance – 1 July 2018	5,000	123	5,123
Proceeds from borrowings	35,000	-	35,000
Repayment of borrowings	(5,000)	-	(5,000)
Others	-	940	940
Closing balance – 30 June 2019	**35,000**	**1,063**	**36,063**

29. Events After Reporting date

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

30. 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.

31. Contingent Liabilities

There have been no contingent liabilities as at 30 June 2019.

Australian Military Bank

Directors (As at 30 June 2019)

John Robert Brooks

Jodie Marie Hampshire, CFA

Alan Bardwell

Sean Patrick FitzGerald

Bruce Andrew Robert Scott, CSC, ADC

Michael Crane DSC & Bar, AM

Jonathan Sadleir AM

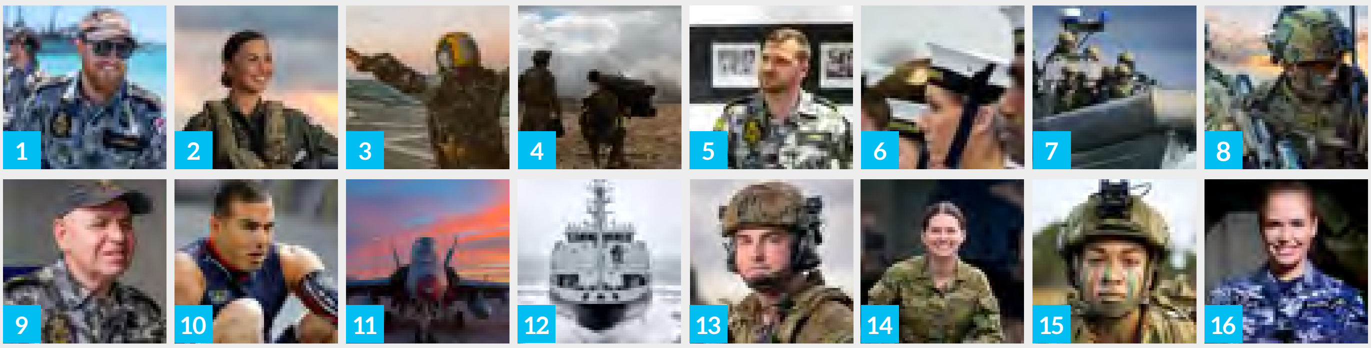
Chief Executive Officer

John Ronald Ford

Auditors

KPMG

Image Index



1. Royal Australian Navy sailor, Able Seaman Electronic Technician Benjamin Andison holds a berthing line as HMAS Parramatta berths alongside Guam Naval Base, Guam, during Exercise Pacific Vanguard 19.
2. Royal Australian Navy Leading Seaman Aircrewman Leeann Mumby at HMAS Albatross, Nowra.
3. Leading Seaman Personnel Operations Christy-Lee Doyle guides the Sikorsky MH-60R Seahawk Helicopter into land on the flight deck of HMAS Toowoomba.
4. A live-fire demonstration was performed during Exercise Talisman abre 2019 (TS19).
5. Navy Leading Seaman Jarryd Jenkins.
6. Able Seaman Ellie Gamble stands at ease during Fleet Divisions at Garden Island, Sydney.
7. HMAS Melbourne's boarding party prepares to conduct an approach and assist boarding in the Indian operation as part of OP MANITOU.
8. Australian Army soldiers Private Stefan Lee and Lieutenant Robert Loftus from the 2nd Battalion (Amphibious), Royal Australian Regiment.
9. Warrant Officer of the Navy and long standing member Col Mackenzie.
10. Credit: Andrew McKenzie Invictus Games Sydney 2018.
11. A Royal Australian Air Force FA-18A Hornet aircraft awaits its next Exercise Red Flag 19-1 mission on the flight line at Nellis Air Force Base, Nevada, USA.
12. MV Sycamore, the Royal Australian Navy's multi-role aviation training vessel (MATV), at sea.
13. Bombardier Thomas Rowe from the 16th Air Land Regiment, Royal Australian Artillery, stands with an RBS-70 short range missile system during a High Mobility Artillery Rocket System (HiMARS) live fire demonstration.
14. Australian Army soldier Private Reanna Morrison from the 1st Close Health Battalion stands with an ambulance variant Bushmaster protected mobility vehicle during Exercise Diamond Sprint at the Shoalwater Bay Training Area.
15. Australian Army soldier Private Kertisha Thompson of 1st Battalion, the Royal Australian Regiment at the Shoalwater Bay Training Area in North Queensland during Exercise Talisman Saber 17.
16. Royal Australian Air Force officer, Flight Lieutenant Sarah Conway-James, from Headquarters Joint Task Force 633 in the Middle East region, is a proud Kamilaroi woman from New South Wales.


FORCE