Australian Military Bank

Annual Report 2021

Financial Report

our members
are our mission

Australian Military Bank

The original banking service provider for the Defence community.

Contents

Directors' report

The directors present their report, together with the financial statements of Australian Military Bank Ltd (the 'company' or 'parent') and the consolidated entity (referred to hereafter as the 'Bank' or 'consolidated entity') consisting of Australian Military Bank Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

The following persons were directors of the Bank during the whole of the financial year and up to the date of this report, unless otherwise stated:

- John Brooks - Chair of the Board
- Alan Bardwell
- Michael Crane DSC & Bar AM
- Sean FitzGerald
- Jonathan Sadleir AM
- Bruce Scott, CSC, ADC
- Rebecca Tolhurst

Principal Activities

The principal activities of the 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.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The profit for the Bank after providing for income tax amounted to $3,348,000 (30 June 2020: $2,279,000).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the Bank, if any, has been reflected in its published results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the Bank's operations going forward. The Bank now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Bank's operations, the results of those operations, or the Bank's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

The Bank is not subject to any significant environmental regulation under Commonwealth or State law.

Directors' report

Information on directors

John Brooks - Chair

Director from 14 August 2000

Qualifications: John graduated from the University of New South Wales with a Bachelor of Arts majoring in economics and is a graduate of the Royal Air Force Staff College in England and the Australian Defence College.

Experience and expertise: John has over 19 years' as a Mutual Bank Director, served for 28 years in the RAAF Logistics Branch and has spent 12 years as a small business owner.

Special responsibilities: Chair of the Board and member of the Audit Committee.

Michael Crane DSC & BAR AM - Director

Director from 1 July 2018

Qualifications: Michael is a Graduate Member of the Australian Institute of Company Directors, Graduate of Mt Eliza General Management Program and the Harvard Club of Australia Leadership Program. He is also a graduate of the United Kingdom Higher Command and Staff Course, the Centre for Defence and Strategic Studies, the Joint Services Staff College and the Army Command and Staff College. Michael holds degrees in Strategic Studies, Defence Studies and Science.

Experience and expertise: Michael served in the Australian Army for more than 37 years including two tours commanding Australian forces in the Middle East. Michael is Chair of The Order of Australia Association (ACT Branch) and serves on the Committee of Lord's Taverners (ACT).

Special responsibilities: Chair of the Culture and Remuneration Committee and member of the Risk Committee.

Alan Bardwell - Director

Director from 1 April 2019

Qualifications: Alan is a Member of the Institute of Chartered Accountants Australia and New Zealand, a Senior Fellow of the Financial Services Institute of Australasia ('FINSIA'), and a Graduate Member of the Australian Institute of Company Directors. Alan holds a Bachelor of Arts (Honours) Economics (Accounting).

Experience and expertise: Alan has over 35 years' experience in the banking, finance and securities industry including 16 years at Citigroup and 10 years with the Australian Securities Exchange where he served as Chief Financial Officer and then Chief Risk Officer. Alan is currently the Chair of RT Health Ltd and non-executive director of Transport Health Ltd. He is also Chair of Ku-ring-Gai Financial Services Ltd and a non-executive director of ClearView Life Nominees Pty Ltd and the Financial Services Institute of Australasia (FINSIA). Alan is Chair of the Market Supervision and Compliance Committee that advises the Board of the Sydney Stock Exchange. He has extensive knowledge of retail, corporate and investment banking, wealth and funds management and the securities industry.

Special responsibilities: Deputy Chair of the Board and Chair of the Risk Committee.

Sean FitzGerald - Director

Director from 25 May 2018

Qualifications: Sean holds a Certificate IV Finance and Mortgage Broking, a Diploma in Finance and Mortgage Broking and a Diploma in Financial Services. Sean is a Member of the Australian Institute of Company Directors and a member of the Mortgage Finance Association Australia ('MFAA').

Experience and expertise: Sean has held a variety of roles over his 20 year banking career across three major banks and two member owned banks. Most recently Sean was the General Manager of Retail Banking and Distribution for P&N Bank, WA's largest member owned bank. Sean's responsibilities cover the retail branches, contact centre, broker channel, commercial finance portfolio, mobile bankers, collections and financial planning. Prior to P&N Bank, Sean was the State General Manager for Retail Banking for Western Australia, South Australia and the Northern Territory for the National Australia Bank ('NAB').

Special responsibilities: Chair of the Audit Committee.

Directors' report
Information on directors

Jonathan Sadleir AM - Director

Director from 1 July 2018

Qualifications: Jonathan holds a Bachelor of Arts in History; a Graduate Diploma in Management; a Graduate Diploma in Maritime Management and Logistics; a Graduate Certificate in International Maritime Studies and a Master of Business Administration. Jonathan is a Member of the Australian Institute of Company Directors.

Experience and expertise: Jonathan was a former Commodore in the Royal Australian Navy, where his senior posts included Chief of Staff to Navy Strategic Command, Commissioning Commanding Officer of HMAS Canberra, Director Navy Continuous Improvement and Commanding Officer of the warship HMAS Parramatta. He is currently the Chief Strategy Officer for an Australian based internationally focussed company in the private sector. He is a demonstrated leader in transformational change.

Special responsibilities: Member of the Culture and Remuneration Committee and member of the Risk Committee.

Bruce Scott, CSC, ADC - Director

Director from 13 November 2013

Qualifications: Bruce is a graduate of the Army Command and Staff College, a Graduate Member of the Australian Institute of Company Directors and a Member of the Institute of Strategy, Innovation and Leadership. He holds a Graduate Diploma in Management Studies.

Experience and expertise: Bruce has been a member of the Australian Defence Force ('ADF') since 1974 with operational service in Malaysia, Somalia and Afghanistan. He retired from the Regular Army in 2000 and from the Army Reserve in 2017 after leading complex and sensitive ADF Inquiries. In late 2018, Bruce accepted the honorary appointment of Colonel Commandant of the Royal Queensland Regiment. In early 2019 he was appointed an Honorary Aide de Camp to the Governor General of Australia. Bruce is also the President of the National Rifle Association of Australia and an active Rotarian.

Special responsibilities: Member of the Audit Committee

Rebecca Tolhurst - Director

Director from 1 July 2020

Qualifications: Rebecca holds degrees in Law (Hons) and Commerce and is also a Graduate Member of the Australian Institute of Company Directors.

Experience and expertise: Rebecca commenced her career in private legal practice in the fields of property and general commercial law before taking up her current position as General Counsel with the Bickford's Group including responsibility for People and Culture. Her experience has extended broadly into the consumer goods, retail and property industries in a transactional and strategic capacity. Rebecca also holds the position of Chair of the Barossa Co-op, a 75 year old retail co-operative operating in her home region of the Barossa Valley.

Special responsibilities: Member of the Culture and Remuneration Committee.

Directors' report
Information on Chief Executive Officer and Company Secretary

Darlene Mattiske-Wood - Chief Executive Officer

Qualifications: Darlene's qualifications include the Advanced Management Program, Harvard University; Diploma in Management; Bachelor of Management and a Graduate Diploma in Human Resource Management. Darlene is also a Member of the Australian Institute of Company Directors.

Experience and expertise: Darlene has more than 20 years' experience in strategic and executive leadership, 15 of these years at the CEO and Deputy CEO level. Darlene has held several Board positions including current Director with COBA (Customer Owned Banking Association) and previous Chair of Mutual Marketplace.

Awards and recognition: Darlene is a recipient of a 2016 Telstra Business Women's Award, and a finalist in the 2017 National Retail Banking Awards for Executive of the Year. Darlene is also a recipient of two AHRI Awards (Australian Human Resource Institute) for People Leadership and People Strategy.

Stephanie Vass - Company Secretary

Qualifications: Stephanie's qualifications include a Bachelor of Arts, Bachelor of Laws, Master of Labour Law and Relations and Graduate Diploma of Applied Corporate Governance. Stephanie is a Chartered Governance Professional, a Chartered Secretary and a Fellow of the Governance Institute of Australia and the Chartered Governance Institute.

Experience and expertise: Stephanie was appointed Company Secretary on 28 August 2020. Stephanie is an experienced legal, commercial and Chartered Governance Professional. Stephanie has held senior executive roles including as Group General Counsel and more recently as Company Secretary in financial services, professional services and manufacturing industries. Stephanie has been a partner in two national law firms and was a part time Judicial Member of the Administrative Decisions Tribunal of NSW. Stephanie is a member of the Corporate and Legal Committee of the Governance Institute of Australia.

Awards and recognition Cultural Diversity Scholarship 2015, Australian Institute of Company Directors.

Directors' report

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Full Board		Audit Committee		Risk Committee		Culture and Remuneraton Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
John Brooks	10	10	7	8	-	-	-	-
Alan Bardwell	10	10	-	-	7	7	-	-
Michael Crane	10	10	-	-	7	7	6	6
Sean FitzGerald	10	10	8	8	-	-	-	-
Jonathan Sadleir	10	10	-	-	7	7	6	6
Bruce Scott	10	10	8	8	-	-	-	-
Rebecca Tolhurst	10	10	-	-	-	-	6	6

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Shares under option

There were no unissued ordinary shares of Australian Military Bank Ltd under option outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of Australian Military Bank Ltd issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and officers of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and officers of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

KPMG continues to be the auditor in accordance with section 327 of the Corporations Act 2001.

Board resolution

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

John Robert Brooks
Chair

Alan Bardwell
Deputy Chair

28 September 2021
Sydney

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

To the Directors of Australian Military Bank Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Military Bank Ltd for the financial year ended 30 June 2021 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

Quang Dang

Partner

Sydney

28 September 2021

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Statements of profit or loss and other comprehensive income

	Note	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000
Interest revenue	4	42,475	48,920	42,475	48,920
Interest expense	5	(11,486)	(19,834)	(11,486)	(19,834)
Net interest income		30,989	29,086	30,989	29,086
Fee commission and other income	4	4,481	5,891	4,481	5,891
Net operating income before expenses		35,470	34,977	35,470	34,977
Operating expenses					
Fee and commission expenses		(5,202)	(4,766)	(5,202)	(4,766)
Impairment reversal/(expense)	5	1,194	(2,230)	1,194	(2,230)
Employees compensation and benefits expenses		(15,664)	(14,129)	(15,664)	(14,129)
Administration expenses		(3,889)	(2,979)	(3,889)	(2,979)
Information technology*		(3,786)	(4,106)	(3,786)	(4,106)
Office occupancy expenses		(769)	(676)	(769)	(676)
Depreciation and amortisation*	5	(1,180)	(1,239)	(1,180)	(1,239)
Other operating expenses		(1,373)	(1,418)	(1,373)	(1,418)
Profit before income tax expense		4,801	3,434	4,801	3,434
Income tax expense*	6	(1,453)	(1,155)	(1,453)	(1,155)
Profit after income tax expense for the year attributable to the members of Australian Military Bank Ltd		3,348	2,279	3,348	2,279
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Gain/(losses) on cash flow hedges taken to equity Items (net of tax)		448	82	448	82
Other comprehensive income for the year, net of tax		448	82	448	82
Total comprehensive income for the year attributable to the members of Australian Military Bank Ltd		3,796	2,361	3,796	2,361

*Refer to note 3 for detailed information on Restatement of comparatives.

The above statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statements of financial position

	Note	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Consolidated 1 July 2019 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000	Parent 1 July 2019 $'000
Assets							
Cash and cash equivalents	7	32,652	38,084	21,833	32,652	38,084	21,833
Other financial assets	8	212,336	198,447	195,071	212,336	198,447	195,071
Receivables and other assets	9	7,623	4,963	3,604	7,623	4,963	3,604
Loans to members	10	1,236,435	1,193,228	1,139,186	1,236,435	1,193,228	1,139,186
Other loans	12	10,275	17,001	20,443	10,275	17,001	20,443
Property, plant and equipment	13	752	842	1,246	752	842	1,246
Right-of-use assets	14	1,464	2,196	2,928	1,464	2,196	2,928
Deferred tax assets*	16	1,406	2,200	2,333	1,406	2,200	2,333
Intangible assets*	15	105	199	183	105	199	183
Income tax refund due		2,995	1,899	1,601	2,995	1,899	1,601
Total assets		1,506,043	1,459,059	1,388,428	1,506,043	1,459,059	1,388,428
Liabilities							
Borrowings from financial and other institutions	17	74,638	35,403	35,000	74,638	35,403	35,000
Deposits	18	1,321,422	1,311,949	1,239,955	1,321,422	1,311,949	1,239,955
Creditors, accruals and other liabilities	19	6,482	11,349	14,590	6,482	11,349	14,590
Lease liabilities		2,081	3,043	3,947	2,081	3,043	3,947
Employee benefits		1,485	1,176	1,158	1,485	1,176	1,158
Total liabilities		1,406,108	1,362,920	1,294,650	1,406,108	1,362,920	1,294,650
Net assets		99,935	96,139	93,778	99,935	96,139	93,778
Equity							
Reserves	20	931	239	1,106	931	239	1,106
Retained earnings*		99,004	95,900	92,672	99,004	95,900	92,672
Total equity		99,935	96,139	93,778	99,935	96,139	93,778

*Refer to note 3 for detailed information on Restatement of comparatives.

The above statements of financial position should be read in conjunction with the accompanying notes

Statements of changes in equity

Consolidated and parent	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2019	1,106	94,544	95,650
Adjustment for change in accounting policy (note 3)	-	(1,872)	(1,872)
Balance at 1 July 2019 - restated	1,106	92,672	93,778
Profit after income tax expense for the year - restated	-	2,279	2,279
Other comprehensive income for the year, net of tax	82	-	82
Total comprehensive income for the year - restated	82	2,279	2,361
Transactions with members in their capacity as members:			
Transfer to retained earnings from general reserve for credit losses (note 20)	(949)	949	-
Balance at 30 June 2020 - restated	239	95,900	96,139

Refer to note 3 for detailed information on Restatement of comparatives.

Consolidated and parent	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2020	239	95,900	96,139
Profit after income tax expense for the year	-	3,348	3,348
Other comprehensive income for the year, net of tax	448	-	448
Total comprehensive income for the year	448	3,348	3,796
Transactions with members in their capacity as members:			
Transfer from retained earnings from general reserve to credit losses (note 20)	244	(244)	-
Balance at 30 June 2021	931	99,004	99,935

The above statements of changes in equity should be read in conjunction with the accompanying notes

Statements of cash flows

	Note	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000
Cash flows from operating activities					
Profit before income tax expense for the year*		4,801	3,434	4,801	3,434
Adjustments for:					
Depreciation and amortisation*		1,180	1,239	1,180	1,239
Impairment (reversal)/expense		(1,194)	2,230	(1,194)	2,230
Interest revenue		(42,475)	(48,920)	(42,475)	(48,920)
Interest expense		11,486	19,834	11,486	19,834
		(26,202)	(22,183)	(26,202)	(22,183)
Change in operating assets and liabilities:					
Decrease/(increase) in prepayments		132	(151)	132	(151)
Increase in sundry receivables		(3,061)	(1,488)	(3,061)	(1,488)
Increase in loan balances		(42,256)	(56,127)	(42,256)	(56,127)
Decrease in other loans		6,981	3,292	6,981	3,292
Increase in deposit balances		9,473	71,994	9,473	71,994
Increase in other provisions		309	18	309	18
Decrease in accrued expenses		(1,669)	(1,806)	(1,669)	(1,806)
		(56,293)	(6,451)	(56,293)	(6,451)
Interest received		42,744	49,200	42,744	49,200
Interest expense paid		(14,067)	(21,165)	(14,067)	(21,165)
Income taxes paid		(1,947)	(1,355)	(1,947)	(1,355)
Net cash from/(used in) operating activities		(29,563)	20,229	(29,563)	20,229
Cash flows from investing activities					
Increase in other financial assets		(13,901)	(3,371)	(13,901)	(3,371)
Payments for property, plant and equipment*		(234)	(119)	(234)	(119)
Payments for intangibles*		(30)	-	(30)	-
Net cash used in investing activities		(14,165)	(3,490)	(14,165)	(3,490)
Cash flows from financing activities					
Decrease in hedging derivatives		23	13	23	13
Proceeds from borrowings		39,235	35,403	39,235	35,403
Repayment of borrowings		-	(35,000)	-	(35,000)
Repayment of lease liabilities		(962)	(904)	(962)	(904)
Net cash from/(used in) financing activities		38,296	(488)	38,296	(488)
Net increase/(decrease) in cash and cash equivalents		(5,432)	16,251	(5,432)	16,251
Cash and cash equivalents at the beginning of the financial year		38,084	21,833	38,084	21,833
Cash and cash equivalents at the end of the financial year	7	32,652	38,084	32,652	38,084

*Refer to note 3 for detailed information on Restatement of comparatives.

The above statements of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

Note 1. General information

The financial statements cover both Australian Military Bank Ltd ('**company**' or '**parent entity**') as an individual entity and the consolidated entity consisting of Australian Military Bank Ltd and the entities it controlled at the end of, or during, the year (collectively referred to as the '**Bank**' or '**consolidated entity**'. The financial statements are presented in Australian dollars, which is Australian Military Bank Ltd.'s functional and presentation currency.

Australian Military Bank Ltd is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 18
45 Clarence Street
Sydney
NSW 2000

A description of the nature of the Bank's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 September 2021. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The Bank has adopted all applicable new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('**AASB**') that are mandatory for the current reporting period.

New or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Bank:

Software-as-a-Service (SaaS) arrangements
The International Financial Reporting Standards Interpretations Committee (**IFRIC**) has issued two final agenda decisions which impact SaaS arrangements:

- Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- Configuration or customisation costs in a cloud computing arrangement (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Bank's accounting policy has historically been to capitalise all costs related to SaaS arrangements as intangible assets in the Statement of Financial Position. The adoption of the above agenda decisions has resulted in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Profit or Loss and Other Comprehensive Income, impacting both the current and/or prior periods presented.

The impact on the financial performance and position of the consolidated entity from the adoption of this change in accounting policy is detailed in note 3.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the AASB and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('**IASB**').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for equity securities and derivatives which are stated at fair value.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

Presentation of the statement of financial position
The financial report presents assets and liabilities on the face of the statement of financial position in decreasing order of liquidity. Information is included in the relevant notes where amounts are expected to be recovered or settled after twelve months.

Parent entity information
These financial statements include the results of both the parent entity and the Bank in accordance with Class Order 10/654, issued by the Australian Securities and Investments Commission.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Bank as at 30 June 2021 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Bank are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Bank loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Bank recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Securitisation vehicle
Certain securitisation vehicles sponsored by the Bank under its securitisation programme are run according to predetermined criteria that are part of the initial design of the vehicles. In addition, the Bank is exposed to variability of returns from the vehicles through its holding of income units in the vehicles.

Outside the day-to-day servicing of the housing loans (which is carried out by the Bank under a servicing contract), key decisions are usually required only when housing loans in the vehicles go into default. Therefore, in considering whether it has control, the Bank considers whether it manages the key decisions that most significantly affect these vehicles' returns. As a result, the Bank has concluded that it controls these vehicles (refer to note 26).

Financial assets and financial liabilities
Financial assets and financial liabilities are recognised when the 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.

Classification and measurement of financial liabilities
The 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 the Bank designated a financial liability at fair value through profit or loss ('**FVTPL**').

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.

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Notes to the financial statements

Note 2. Significant accounting policies (continued)

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
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
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;
- 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.

Business model assessment
The business model reflects how the 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.

*Assessment of whether contractual cash flows meet the solely payments of principal and interest ('**SPPI**') test*
In making the assessment of whether the contractual cash flows have SPPI characteristics, Management considers whether the cash flows 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, the Bank considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the 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.

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

Notes to the financial statements

Note 2. Significant accounting policies (continued)

Financial assets at amortised cost
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, loans, other financial assets and receivables fall into this category of financial instruments.

Financial assets at 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 the Bank's 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.

Loans to members
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 are not intended to sell immediately or in the near term.

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 ('**EIR**') methodology 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.

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 the EIR method.

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 the EIR method.

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.

Commission income
Commissions represent fees from third parties where the Bank acts as an agent by arranging a third party (e.g. an insurance provider) to provide goods and services to a customer. In such cases, the Bank is not primarily responsible for providing the underlying good or service to the customer. For trail commission, revenue is recognised on an accruals basis on completion of the referral or when the commission is received.

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

Notes to the financial statements

Note 2. Significant accounting policies (continued)

Expected credit losses
The Bank recognises loss allowances for expected credit losses ('**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.

The 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.

The 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'. The Bank does not apply the low credit risk exemption to any other financial instruments.

The 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 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; and
- 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, the 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.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

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 until repayments based on the renegotiated terms have been observed continuously for a period of six months. Notwithstanding this, once a borrower is assessed by the bank as able to recommence agreed repayments the facility is then treated as though there is no significant increase in credit risk since initial recognition and subject to a 12-month ECL until such time that any further indication of impairment arises.

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.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

Grading

Grade 1: Low–fair risk (Exposures that are paid up to date or in advance unless the Bank judges to be higher risk)
Grade 2: Higher risk (Exposures overdue by less than 30 days or subsidised mortgage-secured loans in Financial Hardship)
Grade 3: Substandard (Exposures overdue by 30-59 days or non-subsidised mortgage-secured loans in Financial Hardship)
Grade 4: Doubtful (Exposures overdue by 60-89 days or loans not mortgage-secured in Financial Hardship)
Grade 5: Default (Exposures overdue by 90 days or greater)

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 to below investment grade 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 indicators of an increase in credit risk, such as delinquency, 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 modified PD value representing the probability of a loan with previous default history re-entering default, which has been based upon actual historic second default rates from the banks previously defaulted loans.

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 not to have a strong correlation with defaults for the Bank include interest rates and housing price movements.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

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.

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 their 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. A customer needs to return to making normal payments 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.

The Bank treats all applications for hardship, including COVID-19 payment holidays, as being a significant increase in credit risk, and from the time that the borrower applies for hardship modification until either their request is declined and the borrower is determined to be capable of continuing to make payments, or if their variation request is accepted then until they return to making full repayments, all loan facilities for the borrower are treated as Stage 2 for the purpose of calculating the ECL. If a borrower has applied for a hardship variation but then defaults on the negotiated reduced repayments, that loan will then be treated as Stage 3 for the purposes of calculating the ECL.

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 accounts for 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 portfolio the Bank has observed very few instances of loss over a 10-year observation period. Internal data was considered inadequate for statistical modelling, and for this portfolio a benchmark LGD value is used based on the average LGD values published by the four major Australian banks for similar products over the last five years.

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 expected 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.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

For retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank can cancel undrawn commitments with immediate effect when the Bank becomes aware of an increase in credit risk at the facility level and this is automatically actioned if a facility reaches 90 days overdue. As such, only 70% of the available credit limits are considered when calculating the EAD.

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, retail overdrafts and credit cards do not have a fixed term or contractual maturity. The expected remaining lifetime of these facilities is taken as 36 months, which is the expected time that would be required to repay the facility if 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 -2021	Benchmark Used - LGD -2020
Mortgages	1,170,579	Average of four major Australian banks	Average of four major Australian banks

Cash and cash equivalents
Cash and cash equivalents includes cash on hand and on demand deposits with original maturities of three months or less 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 the Bank are disclosed in note 7 to the financial statements.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements:	3-5 years
Plant and equipment:	3-10 years

Assets less than $1,000 are not capitalised.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Bank. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

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.

Right-of-use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Bank expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Bank has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets
Intangible assets acquired are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Computer software
Significant costs associated with computer software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 to 9 years.

SaaS arrangements
SaaS arrangements are service contracts providing the Bank with the right to access the cloud provider's application software over the contract period. As such the Bank does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

The following outlines the accounting treatment of costs incurred in relation to SaaS arrangements:

Recognise as an operating expense over the term of the service contract	● Fee for use of application software ● Customisation costs
Recognise as an operating expense as the service is received	● Configuration costs ● Data conversion and migration costs ● Testing costs ● Training costs

In applying the Bank's accounting policy, the directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements.

Determination whether configuration and customisation services are distinct from the SaaS access
Implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received.

Where the SaaS arrangement supplier provides both configuration and customisation services, judgement has been applied to determine whether each of these services are distinct or not from the underlying use of the SaaS application software. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront). Non-distinct configuration and customisation costs are expensed over the SaaS contract term.

Non-distinct customisation activities significantly enhance or modify a SaaS cloud-based application. Judgement has been applied in determining whether the degree of customisation and modification of the SaaS cloud-based application is significant or not.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

The Bank did not recognise prepayments in 2021 and 2020 in respect of configuration and customisation activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS application software over the contract term, as the degree of customisation was considered to be not significant.

Capitalisation of configuration and customisation costs in SaaS arrangements
In implementing SaaS arrangements, the Bank has developed software code that either enhances, modifies or creates additional capability to the existing owned software. This software is used to connect with the SaaS arrangement cloud-based application.

Judgement has been applied in determining whether the changes to the owned software meets the definition of and recognition criteria for an intangible asset in accordance with AASB 138 Intangible Assets.

The Bank did not recognise intangible assets in 2021 and 2020 in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the incremental borrowing rate. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

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.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Critical accounting judgements, estimates and assumptions
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

Judgement, 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 2 – Expected credit losses accounting policy, note 11 – Provision for credit losses (for loans and investments), including considerations for COVID-19 impact and note 2 - Software-as-a-Service (SaaS) arrangements.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Bank for the annual reporting period ended 30 June 2021. The Bank's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Bank, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)
The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 July 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Bank has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Bank may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Bank's financial statements.

Notes to the financial statements

Note 3. Restatement of comparatives

Change in accounting policy

SaaS arrangements
As outlined in note 2, the Bank has adopted IFRIC's two final agenda decisions which impact SaaS arrangements. The adoption of the above agenda decisions has resulted in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Comprehensive Income, impacting both the current and/or prior periods presented as follows:

- intangible assets totalling $2,750,000 and $2,674,000 have been derecognised at 30 June 2020 and 1 July 2019 respectively. These amounts represent expenditure with respect to SaaS arrangements that were previously capitalised. The derecognition of the intangible assets resulted in a deferred tax asset of $802,000 being recognised on 1 July 2019;
- amortisation $513,000 for the year ended 30 June 2020 was derecognised. This amount represents the amortisation the expense on previously recognised intangible assets;
- an expense of $589,000 was recognised for the year ended 30 June 2020. These amounts represent expenditure with respect to SaaS arrangements that was previously capitalised as an intangible asset;
- the tax impact of the adjustment resulted in an increase to the tax expenses of $114,000 and an decrease in the deferred tax asset of $114,000 for the year ended 30 June 2020; and
- the overall impact on total equity was a decrease in profit for the year ended 30 June 2020 of $190,000 and a decrease in opening retained profits at 1 July 2019 of $1,872,000.

There was no overall impact on the total cash flows of the Bank. However, cash outflows totalling $589,000 were reclassified from cash flows from investing activities to cash flows from operating activities.

The impact on the statement of profit or loss and other comprehensive income and statement of financial position is as follows:

Statements of profit or loss and other comprehensive income

	Consolidated and parent		
	30 June 2020		30 June 2020
	$'000	$'000	$'000
Extract	**Reported**	**Adjustment**	**Restated**
Operating expenses			
Information technology	(3,517)	(589)	(4,106)
Depreciation and amortisation	(1,752)	513	(1,239)
Profit before income tax expense	3,510	(76)	3,434
Income tax expense	(1,041)	(114)	(1,155)
Profit after income tax expense for the year attributable to the members of Australian Military Bank Ltd	2,469	(190)	2,279
Other comprehensive income for the year, net of tax	82	-	82
Total comprehensive income for the year attributable to the members of Australian Military Bank Ltd	2,551	(190)	2,361

Notes to the financial statements

Note 3. Restatement of comparatives (continued)

Statements of financial position at the beginning of the earliest comparative period

	Consolidated and parent		
	1 July 2019 $'000	$'000	1 July 2019 $'000
Extract	Reported	Adjustment	Restated
Assets			
Deferred tax assets	1,531	802	2,333
Intangible assets	2,857	(2,674)	183
Total assets	1,390,300	(1,872)	1,388,428
Net assets	95,650	(1,872)	93,778
Equity			
Retained profits	94,544	(1,872)	92,672
Total equity	95,650	(1,872)	93,778

Statements of financial position at the end of the earliest comparative period

	Consolidated and parent		
	30 June 2020 $'000	$'000	30 June 2020 $'000
Extract	Reported	Adjustment	Restated
Assets			
Deferred tax assets	1,512	688	2,200
Intangible assets	2,949	(2,750)	199
Total assets	1,461,121	(2,062)	1,459,059
Net assets	98,201	(2,062)	96,139
Equity			
Retained profits	97,962	(2,062)	95,900
Total equity	98,201	(2,062)	96,139

Notes to the financial statements

Note 3. Restatement of comparatives (continued)

Statements of cash flows at the end of the earliest comparative period

	Consolidated and parent		
	30 June 2020 $'000		30 June 2020 $'000
Extract	Reported	Adjustment	Restated
Cash flows from operating activities			
Profit before income tax expense for the year	3,510	(76)	3,434
Depreciation and amortisation	1,752	(513)	1,239
Net cash from/(used in) operating activities	20,818	(589)	20,229
Cash flows from investing activities			
Payments for property, plant and equipment	(294)	175	(119)
Payments for intangibles	(414)	414	-
Net cash used in investing activities	(4,079)	589	(3,490)
Cash flows from financing activities			
Net cash used in financing activities	(488)	-	(488)
Net increase in cash and cash equivalents	16,251	-	16,251
Cash and cash equivalents at the beginning of the financial year	21,833	-	21,833
Cash and cash equivalents at the end of the financial year	38,084	-	38,084

Note 4. Revenue and income

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Interest revenue				
Cash and cash equivalents	-	6	-	6
Due from other financial institutions	689	2,620	689	2,620
Loans to members and other loans	41,786	46,294	41,786	46,294
Total interest revenue	42,475	48,920	42,475	48,920

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Fee, commission and other income				
Fee and commission revenue				
Fee income on loans – other than loan origination fees	915	1,034	915	1,034
Fee income from members' deposits	1,876	2,514	1,876	2,514
Insurance commissions	873	1,444	873	1,444
Other commissions	551	624	551	624
Total fee and commission revenue	4,215	5,616	4,215	5,616
Other income				
Miscellaneous revenue	266	275	266	275
Total fee commission and other income	4,481	5,891	4,481	5,891

Notes to the financial statements

Note 5. Expenses

Profit before income tax includes the following specific expenses:

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Interest expense				
Interest expense on liabilities carried at amortised cost - Deposits	10,936	19,447	10,936	19,447
Interest expense on liabilities carried at amortised cost - Borrowings	498	317	498	317
Interest and finance charges paid/payable on lease liabilities	52	70	52	70
Total interest expense	11,486	19,834	11,486	19,834
Impairment and other losses				
Impairment (gains)/losses on loans to members and other loans:				
(Decrease)/increase in provision for impairment	(1,923)	487	(1,923)	487
Bad debts written off directly against profit	937	1,563	937	1,563
Bad debts recovered	(208)	(247)	(208)	(247)
Total impairment losses on loans to members and other loans	(1,194)	1,803	(1,194)	1,803
Other losses	-	427	-	427
Total impairment and other losses	(1,194)	2,230	(1,194)	2,230
Depreciation and amortisation expense includes:				
Depreciation of plant and equipment	189	207	189	207
Depreciation of leasehold improvements	105	149	105	149
Depreciation of right-of-use assets	732	732	732	732
Amortisation of software	154	151	154	151
Total depreciation and amortisation	1,180	1,239	1,180	1,239
Superannuation expense (included in Employees compensation and benefits expenses)				
Defined contribution superannuation expense	1,110	967	1,110	967

Notes to the financial statements

Note 6. Income tax expense

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Income tax expense				
Current tax	851	1,114	851	1,114
Deferred tax - origination and reversal of temporary differences	602	41	602	41
Aggregate income tax expense	1,453	1,155	1,453	1,155
Deferred tax included in income tax expense comprises:				
Decrease in deferred tax assets (note 16)	602	41	602	41
Numerical reconciliation of income tax expense and tax at the statutory rate				
Profit before income tax expense	4,801	3,434	4,801	3,434
Tax at the statutory tax rate of 26% (2020: 30%)	1,248	1,030	1,248	1,030
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Others	205	125	205	125
Income tax expense	1,453	1,155	1,453	1,155

Note 7. Cash and cash equivalents

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Cash on hand	1,272	1,847	1,272	1,847
Deposits on call	31,380	36,237	31,380	36,237
	32,652	38,084	32,652	38,084

Included within cash and cash equivalents at 30 June 2021 is $9,642,663 and $110,070 of liquidity and expense reserve respectively (2020: $12,747,705 and $110,070) held within Artemis Securitisation Trust Repo Series No. 1 (Artemis Trust), which is a self-securitisation for liquidity.

Note 8. Other financial assets

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Due from other financial institutions at amortised cost				
Negotiable Certificate of Deposits	107,898	82,319	107,898	82,319
Floating rate notes	71,594	56,119	71,594	56,119
Government bonds	18,032	45,189	18,032	45,189
Term deposits	14,790	14,790	14,790	14,790
	212,314	198,417	212,314	198,417
Equity investment securities designated as FVTPL				
Shared Lending Pty Ltd shareholding	20	28	20	28
CUSCAL	2	2	2	2
	212,336	198,447	212,336	198,447

Refer to note 23 for further information on fair value measurement.

Notes to the financial statements

Note 9. Receivables and other assets

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Interest receivable on deposits with other financial institutions	270	539	270	539
Prepayments	204	336	204	336
Sundry debtors and settlement accounts	7,149	4,088	7,149	4,088
	7,623	4,963	7,623	4,963

Note 10. Loans to members

Loans to members comprise of financial assets at amortised cost

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Loans to members	1,236,720	1,195,050	1,236,720	1,195,050
Add: Unamortised loan origination expenses	383	542	383	542
Less: Unearned income	(1)	(17)	(1)	(17)
Subtotal[1]	1,237,102	1,195,575	1,237,102	1,195,575
Less: Allowance for expected credit losses	(667)	(2,347)	(667)	(2,347)
	1,236,435	1,193,228	1,236,435	1,193,228
Loans to members comprises				
Overdrafts and revolving credit	13,490	15,503	13,490	15,503
Term loans	1,223,230	1,179,547	1,223,230	1,179,547
	1,236,720	1,195,050	1,236,720	1,195,050
Credit quality - security held against loans				
Secured by mortgage over real estate	1,170,579	1,132,912	1,170,579	1,132,912
Partly secured by vehicle mortgage	36,036	30,514	36,036	30,514
Wholly unsecured	30,105	31,624	30,105	31,624
	1,236,720	1,195,050	1,236,720	1,195,050

It is not practicable to value all collateral as at the reporting 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:

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Security held as mortgage against real estate is on the basis of:				
loan to valuation ratio of less than or equal to 80%	878,781	866,418	878,781	866,418
loan to valuation ratio of more than 80% but mortgage insured	245,425	252,761	245,425	252,761
loan to valuation ratio of more than 80% and not mortgage insured (including First Home Loan Deposit Scheme loans)	46,373	13,733	46,373	13,733
Total	1,170,579	1,132,912	1,170,579	1,132,912

Loan to valuation ratio ('LVR') is calculated as the ratio of current loan balance and the valuation of the collateral at the time the mortgage was funded.

[1]$1,235,728,583 (2020: $1,193,761,566) is expected to contractually mature in more than 12 months after the reporting date for the consolidated entity.

Notes to the financial statements

Note 10. Loans to members (continued)

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Concentration of loans by purpose				
Loans to members				
Residential mortgage loans	1,170,579	1,132,912	1,170,579	1,132,912
Personal loans	52,689	46,739	52,689	46,739
Credit cards and overdrafts	13,452	15,399	13,452	15,399
Total[2]	1,236,720	1,195,050	1,236,720	1,195,050

[2]Included as part of term loans as at 30 June 2021 were securitised loans of $458,136,000 (2020: $608,211,123) in Artemis Trust that were consolidated as part of the Bank and at the parent entity level did not achieve de-recognition under AASB 9.

Ageing profile of loans to members
The ageing profile of loans from members is as follows:

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Current not overdue	1,217,632	1,190,874	1,217,632	1,190,874
Up to 89 days	18,076	1,517	18,076	1,517
91 days to 180 days	470	866	470	866
182 days to 272 days	78	459	78	459
273 days to 364 days	121	337	121	337
365 days and over	343	997	343	997
	1,236,720	1,195,050	1,236,720	1,195,050

In 2020, the Bank was not required to track the arrears of loans that had payments reduced or deferred due to COVID-19; hence the arrears up to 89 days in 2020 appear to be lower than in 2021.

Notes to the financial statements

Note 11. Provision for expected credit losses

Amounts arising from ECL
The loss allowances as of the year end by class of exposure/asset are summarised in the table below.

	Gross Carrying Value 2021 $'000	ECL Allowance 2021 $'000	Carrying Value 2021 $'000	Gross Carrying Value 2020 $'000	ECL Allowance 2020 $'000	Carrying Value 2020 $'000
Loans to members						
Mortgages	1,170,579	53	1,170,526	1,132,912	641	1,132,271
Personal	52,689	384	52,305	46,739	1,052	45,687
Credit cards and overdrafts	13,452	230	13,222	15,399	654	14,745
Total loans to members	1,236,720	667	1,236,053	1,195,050	2,347	1,192,703
Other loans						
Marketplace lending	10,607	332	10,275	17,588	587	17,001
Other financial assets						
Due from other financial institutions	212,314	54	212,260	198,461	44	198,417
Deposits at call	31,380	2	31,378	36,237	-	36,237
Total other financial assets	243,694	56	243,638	234,698	44	234,654
Total	1,491,021	1,055	1,489,966	1,447,336	2,978	1,444,358

Included in the amount is $485 (2020: $4,000) provision for loan commitments that have not commenced drawdown with the carrying value $9,701,000 (2020: $11,373,000). These commitments are all classified as Stage 1. Loan commitments outstanding for facilities that have been partially drawn upon total $14,788,000 (2020: $8,599,000) and the ECL on these commitments is included in the total ECL but not separately distinguishable for the drawn and undrawn components.

An analysis of the 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.

	Stage 1 Carrying Value 2021 $'000	Stage 1 12 month ECL 2021 $'000	Stage 2 Carrying Value 2021 $'000	Stage 2 Lifetime ECL 2021 $'000	Stage 3 Carrying Value 2021 $'000	Stage 3 Lifetime ECL 2021 $'000	Total Carrying Value 2021 $'000	Total ECL 2021 $'000
Loans to members								
Mortgages	1,165,167	28	5,052	8	360	17	1,170,579	53
Personal	52,102	89	296	79	291	216	52,689	384
Overdrafts	12,998	89	252	40	202	101	13,452	230
Total loans to members	1,230,267	206	5,600	127	853	334	1,236,720	667
Other loans	10,358	148	110	55	139	128	10,607	332
Other financial assets	212,314	54	-	-	-	-	212,314	54
Deposits on call	31,380	2	-	-	-	-	31,380	2
Total	1,484,319	410	5,710	182	992	462	1,491,021	1,055

Notes to the financial statements

Note 11. Provision for expected credit losses (continued)

	Stage 1 Carrying Value 2020 $'000	Stage 1 12 month ECL 2020 $'000	Stage 2 Carrying Value 2020 $'000	Stage 2 Lifetime ECL 2020 $'000	Stage 3 Carrying Value 2020 $'000	Stage 3 Lifetime ECL 2020 $'000	Total Carrying Value 2020 $'000	Total ECL 2020 $'000
Loans to members								
Mortgages	1,095,317	305	34,962	218	2,633	118	1,132,912	641
Personal	44,989	473	820	104	930	475	46,739	1,052
Overdrafts	14,421	378	359	44	619	232	15,399	654
Total loans to members	1,154,727	1,156	36,141	366	4,182	825	1,195,050	2,347
Other loans	16,547	352	802	94	239	141	17,588	587
Other financial assets	198,461	44	-	-	-	-	198,461	44
Deposits on call	36,237	-	-	-	-	-	36,237	-
Total	1,405,972	1,552	36,943	460	4,421	966	1,447,336	2,978

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 2021 $'000	Stage 2 Lifetime ECL 2021 $'000	Stage 3 Lifetime ECL 2021 $'000	Total 2021 $'000
Loans to members and other loans				
Balance as at 30 June 2020	1,508	460	966	2,934
Change in the loss allowance	(1,154)	(278)	(503)	(1,935)
Balance at 30 June 2021	354	182	463	999
Other financial assets				
Balance as at 30 June 2020	44	-	-	44
Change in the loss allowance	12	-	-	12
Balance at 30 June 2021	56	-	-	56
Total	410	182	463	1,055

	Stage 1 12 month ECL 2020 $'000	Stage 2 Lifetime ECL 2020 $'000	Stage 3 Lifetime ECL 2020 $'000	Total 2020 $'000
Loans to members and other loans				
Balance as at 30 June 2019	1,017	317	1,108	2,442
Change in the loss allowance	491	143	(142)	492
Balance at 30 June 2020	1,508	460	966	2,934
Other financial assets				
Balance as at 30 June 2019	50	-	-	50
Change in the loss allowance	(6)	-	-	(6)
Balance at 30 June 2020	44	-	-	44
Total	1,552	460	966	2,978

Notes to the financial statements

Note 11. Provision for expected credit losses (continued)

Key assumptions and judgements
Key assumptions and judgements adopted in estimating ECL are presented below. Details on the Bank's policy on determining these assumptions, including judgement involved are presented in note 2.

Probability of default ('PD') and Loss Given Default ('LGD')

	2021 %	2020 %
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)	0.07%	0.26%
Grade 2: Higher risk (Exposures overdue by less than 30 days or subsidised Home loans in Financial Hardship)	3.52%	3.73%
Grade 3: Substandard (Exposures overdue by 30-59 days or non-subsidised Home loans in Financial Hardship)	12.51%	27.15%
Grade 4: Doubtful (Exposures overdue by 60-89 days or consumer loans in Financial Hardship)	72.35%	46.22%
Grade 5: Default (Exposures overdue by 90 days or greater)	100.00%	100.00%

During 2021 the weighted average probability of default for Grade 3 reduced due to improved collection processes of loans past due 30-59 days.

During 2021 the weighted average probability of default for Grade 4 increased as in 2020 several home loans were overdue between 60-89 days and these products have high balances but relatively lower PD so the 2020 result was weighted toward lower PD exposures. In 2021 no home loans were overdue between 60-89 days so average PD is weighted toward higher PD exposures.

	2021 %	2020 %
Average loss rates (LGD)		
Treasury exposure	1.30%	1.34%
Loans to members		
- home loans	3.70%	3.28%
- personal loans	35.25%	30.76%
- revolving credit	22.63%	17.90%
Other loans	67.80%	30.76%

LGDs for home loans increased in 2021 in line with the increase in the external benchmark used, i.e. the average of the four major Australian banks.

The Bank has changed its assumption regarding LGD of market place lending. In 2020 a benchmark from the Bank's internal unsecured personal loans history was used. From 2021 this method has changed to calculate actual LGD over three years on market place lending investments. This resulted in an increase of the 2021 LGD for market place lending.

LGDs for personal loans and revolving credit also increased in 2021 due to higher write offs in 2021 after a change in practice of derecognising non-performing facilities at an earlier stage.

Impact of COVID-19 on the provision for ECL for the financial year ended 30 June 2021
COVID-19 has had a significant impact on the Australian economy. The current and prospective deterioration in the economy due to COVID-19 has resulted in additional considerations in the provision for ECL.

In the reassessing the ECL model, the Bank have considered the current and prospective impact of COVID-19 on its customer base including:

- job security and earnings potential of its customers;
- trends in customer behaviour since the outbreak of COVID-19 to date; and
- increased risk of default should the current COVID-19 situation deteriorate.

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Note 11. Provision for expected credit losses (continued)

COVID-19 payment holidays
The Bank has provided support to members impacted by COVID-19 through loan repayment deferrals. As at 30 June 2021, no home loans have payments reduced or deferred due to COVID-19 (2020: 74 home loans totalling $25.6M). At 30 June 2020 these loans were considered the continuations of the existing loans and therefore accounted for as non-substantial modifications. As a result, the loans were not derecognised and new loans were not recognised.

For ECL measurement at 30 June 2020, the Bank analysed the financial position of borrowers to identify whether these loans on payment reduction or deferral would have been considered to be in default if the variation had not been granted and also considered which facilities were at greater risk of defaulting in the near future. The Bank took into account the financial position of borrowers as at 30 June, and also loan repayment performance subsequent to the year end in identifying facilities of higher risk. Loans that would have been considered to be in default by being at least 90 days past due at 30 June 2020 if not for the payment deferral, and had not returned to making full repayment prior to the preparation of this report have been classified as Stage 3 with a PD of 100%. All other loans that were subject to reduced or deferred repayments at 30 June 2020, as well as any other connected facilities for the same borrowers, have been classified as Stage 2 at 30 June 2020 even if brought back into order after the year end. Within Stage 2, the Bank identified the number of days the loan would be overdue if the repayment variation had not been granted, and applied higher PD's to loans with higher days past due, as they are considered more likely to become defaulted in future. The LGD for loans on payment deferral was not altered, and continued to use the same LGD determined for the overall product type.

Forward looking assumptions
For the year ended 30 June 2021 the Bank formulated three economic scenarios which take into consideration the impact of COVID-19 on various indicators of economic health:

Scenario 1 (Upside):	Estimates a small impact and fast recovery from the most recent outbreaks of COVID-19 due to vaccinations being effective, lockdown restrictions being only localised and for limited timeframes, government support being available if needed, and increased capability for many businesses to continue operating through lockdown with lessons learned in 2020. This may result in economic conditions improving sufficiently that the RBA can wind back some support measures early.
Scenario 2 (Base Case):	Involves a more pronounced near-term impact of COVID-19 on the economy with vaccination rollout being delayed and lockdown conditions being extended. In this scenario the Bank expects that the government may reintroduce JobKeeper (or similar) payments for a time to keep unemployment low (below 5%) but future CPI inflation would be higher than under scenario 1 as the RBA Bond Purchasing Program and low target cash rate will continue until 2025 and stability from JobKeeper (or similar) payments will encourage household consumption.
Scenario 3 (Downside):	Estimates a significant impact of COVID-19 on the economy if vaccinations are not effective and long term lockdown conditions are reintroduced similar to 2020, but with reduced government capacity to provide support payments to the same extent as in 2020. In this scenario, if JobKeeper (or similar) payments cannot be maintained or businesses close, unemployment may return to a peak of 7.1% in 2022 and GDP is expected to be suppressed with annual growth between 1.2%-1.3% for several years.

The Bank determined the probability of each scenario occurring was 30%, 40% and 30% respectively. External information considered included economic data and forecasts published by the Reserve Bank of Australia and selected private-sector economic forecasters.

The table compares the approximate levels of ECL under 3 more probabilities at 30 June 2021, holding all other assumptions constant.

	ECL sensitivity analysis $'000
ECL on loans (weighted 30% upside, 40% base case, 30% downside)	999
Upside scenario (weighted 100%)	862
Base case scenario (weighted 100%)	981
Downside scenario (weighted 100%)	1,162

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.

Notes to the financial statements

Note 11. Provision for expected credit losses (continued)

		2021	2022	2023	2024	2025
Unemployment rates	Scenario 1:	5.0%	4.5%	4.5%	4.3%	4.3%
	Scenario 2:	4.4%	3.8%	4.0%	4.0%	4.0%
	Scenario 3:	7.0%	7.1%	6.7%	6.1%	5.3%
GDP growth	Scenario 1:	4.8%	3.3%	2.8%	2.6%	2.6%
	Scenario 2:	4.8%	3.2%	3.0%	3.0%	3.0%
	Scenario 3:	3.0%	1.2%	1.2%	1.2%	1.3%
CPI	Scenario 1:	1.6%	1.4%	2.0%	2.0%	2.0%
	Scenario 2:	2.4%	2.4%	2.4%	2.4%	2.4%
	Scenario 3:	0.8%	0.1%	0.4%	0.6%	0.8%

For the year ended 30 June 2020 the Bank formulated two economic scenarios which both take into consideration the impact of COVID-19 on various indicators of economic health:

Scenario 1: estimates a more moderate near term impact of COVID-19 on unemployment (peaking at 8.6% in Dec 2020) and GDP (decreasing 4.7% in 2020) due to extended government support, but with restrictions remaining in place for longer causing low confidence this scenario considers a longer recovery time resulting in higher unemployment and lower inflation and GDP growth through to 2023.

Scenario 2 involves a more pronounced near-term impact of COVID-19 on the economy with unemployment peaking at 9.5% and GDP contracting 6% in 2020 with less government support coinciding with an expected easing of most restrictions around late September 2020. The easing of restrictions are expected to increase confidence, investment and household spending in the domestic economy with a slightly faster recovery and better outcomes in 2022.

The Bank determined the probability of each case occurring was 50%. External information considered included economic data and forecasts published by the Reserve Bank of Australia and a selected private-sector economic forecaster.

		2020	2021	2022	2023	2024
Unemployment rates	Scenario 1:	8.60%	7.40%	7.00%	6.60%	6.20%
	Scenario 2:	9.00%	7.50%	7.00%	6.60%	6.20%
GDP growth	Scenario 1:	(4.68%)	3.03%	4.06%	3.03%	3.03%
	Scenario 2:	(6.01%)	6.02%	5.40%	3.03%	3.03%
CPI	Scenario 1:	0.67%	2.10%	2.42%	2.42%	2.42%
	Scenario 2:	0.25%	1.25%	2.62%	1.81%	1.81%

The Bank's ECL as at 30 June 2020 was based on the key assumptions adopted above, including the forward looking economic assumptions that reflect the impact of COVID-19 on GDP growth, employment rates and CPI.

The following table shows the approximate levels of ECL under 2 more scenarios at 30 June 2020, holding all other assumptions constant.

	ECL sensitivity analysis $'000
Upside scenario (see assumptions in the table below)	2,670
Downside scenario (see assumptions in the table below)	3,658

Notes to the financial statements

Note 11. Provision for expected credit losses (continued)

Assumption	Scenario	2020	2021	2022	2023	2024
GDP Growth % pa	Best	(4.7%)	6.1%	4.6%	3.7%	3.1%
	Worst	(7.3%)	3.0%	1.3%	1.2%	1.5%
CPI % pa	Best	0.7%	2.4%	2.1%	2.3%	2.3%
	Worst	(0.1%)	0.8%	(0.2%)	0.7%	1.3%
Unemployment %	Best	8.6%	5.0%	5.5%	5.0%	4.8%
	Worst	9.3%	7.0%	9.5%	10.3%	9.0%

Note 12. Other loans

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Marketplace lending	10,607	17,588	10,607	17,588
Less: provision for impaired loans	(332)	(587)	(332)	(587)
	10,275	17,001	10,275	17,001

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

Note 13. Property, plant and equipment

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Leasehold improvements - at cost	3,431	3,282	3,431	3,282
Less: Accumulated depreciation	(3,107)	(3,002)	(3,107)	(3,002)
	324	280	324	280
Plant and equipment - at cost	5,501	5,446	5,501	5,446
Less: Accumulated depreciation	(5,073)	(4,884)	(5,073)	(4,884)
	428	562	428	562
	752	842	752	842

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated and parent	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2019	220	1,026	1,246
Additions	209	85	294
WIP transfer to software	-	(342)	(342)
Depreciation expense	(149)	(207)	(356)
Balance at 30 June 2020	280	562	842
Additions	149	55	204
Depreciation expense	(105)	(189)	(294)
Balance at 30 June 2021	324	428	752

Notes to the financial statements

Note 14. Right-of-use assets

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Land and buildings - right-of-use	2,928	2,928	2,928	2,928
Less: Accumulated depreciation	(1,464)	(732)	(1,464)	(732)
	1,464	2,196	1,464	2,196

The Bank leases buildings for its offices and a branch under an agreement of 10 years. The lease has various escalation clauses. On renewal, the terms of the lease will be renegotiated.

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated and parent	Land and buildings $'000
Balance at 1 July 2019	2,928
Depreciation expense	(732)
Balance at 30 June 2020	2,196
Depreciation expense	(732)
Balance at 30 June 2021	1,464

Note 15. Intangible assets

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Software - at cost	3,534	3,474	3,534	3,474
Less: Accumulated amortisation	(3,429)	(3,275)	(3,429)	(3,275)
	105	199	105	199

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated and parent	Software $'000
Balance at 1 July 2019	183
Additions	167
Amortisation expense	(151)
Balance at 30 June 2020	199
Additions	60
Amortisation expense	(154)
Balance at 30 June 2021	105

Notes to the financial statements

Note 16. Deferred tax assets

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Deferred tax asset comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Accrued expenses not deductible until incurred	81	80	81	80
Provisions for impairment on loans	300	881	300	881
Provisions for employee benefits	446	353	446	353
Provisions for other liabilities	-	(2)	-	(2)
Depreciation on fixed assets and intangible assets	(109)	(298)	(109)	(298)
Intangible asset write-offs	449	688	449	688
Arising from losses on cash flow hedges	50	242	50	242
Right of use assets	(439)	(659)	(439)	(659)
Lease liability	628	915	628	915
Deferred tax asset	1,406	2,200	1,406	2,200
Movements:				
Opening balance	2,200	2,276	2,200	2,276
Charged to profit or loss (note 6)	(602)	(41)	(602)	(41)
Charged to equity (note 20)	(192)	(35)	(192)	(35)
Closing balance	1,406	2,200	1,406	2,200

Note 17. Borrowings from financial and other institutions

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Borrowings - Term Funding Facilities from the RBA	59,638	35,403	59,638	35,403
Borrowings - Term Subordinated Debt	15,000	-	15,000	-
	74,638	35,403	74,638	35,403

As at 30 June 2021, borrowings consisted of Term Funding Facilities from the Reserve Bank of Australia ('RBA') and Term Subordinated Debt from financial and other institutions.

The facilities from the RBA have fixed terms of 3 years. Fixed interest rates as at 30 June 2021 are 0.25% on $35,403,315 (2020: $35,403,315) and 0.10% on $24,234,424. There were no defaults on interest payments on this liability in the current year. The borrowings are secured by a total of $113,000,000 notes issued by Artemis Trust (note 26).

The Term Subordinated Debt has a fixed term of 10 years, with an optional redemption date after 5 years. Interest rate as at 30 June 2021 is 3.79%. There were no defaults on interest payments on this liability in the current year. The borrowing is unsecured.

Notes to the financial statements

Note 18. Deposits

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Member deposits - at call	763,493	630,445	763,493	630,445
Member deposits - term	422,324	535,029	422,324	535,029
Deposits from other financial institutions	135,498	146,372	135,498	146,372
Members withdrawable shares	107	103	107	103
	1,321,422	1,311,949	1,321,422	1,311,949

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

Member shares are fully paid at $2 each. Members are entitled to vote at the Annual General Meeting ('AGM') and share the remaining net assets of the company in the event of winding up. The shares are redeemable or transferable if the members leave the company. As a mutual bank, no dividend is payable on these shares.

Note 19. Creditors, accruals and other liabilities

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Creditors and accruals	1,816	2,247	1,816	2,247
Interest payable on deposits	2,876	5,457	2,876	5,457
Derivative liability	342	959	342	959
Sundry creditors	1,448	2,686	1,448	2,686
	6,482	11,349	6,482	11,349

Refer to note 22 for further information on financial risk management objectives and policies.

Note 20. Reserves

	Consolidated		Parent	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
General reserve for credit losses	1,170	926	1,170	926
Cash flow hedge reserve	(239)	(687)	(239)	(687)
	931	239	931	239

General reserve for credit losses
This reserve records amounts 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.

Cash flow hedge reserve
The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Notes to the financial statements

Note 20. Reserves (continued)

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated and parent	General reserve for credit losses $'000	Cash flow hedge reserve $'000	Total $'000
Balance at 1 July 2019	1,875	(769)	1,106
Transfer to retained earnings from general reserve for credit losses	(949)	-	(949)
Gain on cash flow hedges taken on equity terms	-	117	117
Deferred tax	-	(35)	(35)
Balance at 30 June 2020	926	(687)	239
Transfer from retained earnings to general reserve for credit losses	244	-	244
Gain on cash flow hedges taken on equity terms	-	640	640
Deferred tax	-	(192)	(192)
Balance at 30 June 2021	1,170	(239)	931

Note 21. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 22. Financial risk management objectives and policies

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

The 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 the 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 mitigated 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 and Liability Committee ('**ALCO**')*
This committee of senior management meets at least monthly and has responsibility for monitoring the 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.

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

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 Risk 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 Chief Executive Officer or the Board. All large 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 and the Board monthly.

Arrears are strictly controlled. A dedicated credit control team, which reports to the Chief Executive Officer and Board, implements the 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.

Chief Risk Officer*:*
The Chief Risk Officer 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 framework;
- Risk management strategy;
- Risk appetite statement;
- Liquidity risk management framework;
- Liquidity contingency plan;
- Market risk management plan;
- Credit risk management policy;
- Collections policy;
- Compliance program;
- Data risk management policy;
- Internal capital adequacy assessment process; and
- Capital contingency plan.

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

Market risk

The objective of the 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 the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not actively trade in the financial instruments it holds on its books. The 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. The 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.

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

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
The 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 the Bank faces arises from fixed rate assets and liabilities. This exposes the 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
The Bank measures its interest rate risk by the use of a VaR model. The detail and assumptions used are set out below.

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

Value at Risk
The 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% confidence level and taking into account historical correlations between different markets and rates.

The VaR on the banking book was as follows:

	2021 $	2020 $
VaR	180,153	125,135

The Bank is therefore confident within a 99% 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.

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

i. Credit risk - member loans
The analysis of the Bank's loans by class is as follows:

Consolidated and parent		2021	
Loan type	Carrying Value $'000	Commitments $'000	Maximum exposure $'000
Mortgages	1,170,579	116,769	1,287,348
Personal	52,689	3,352	56,041
Credit cards and overdrafts	13,452	18,892	32,344
Total loans	1,236,720	139,013	1,375,733

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

Consolidated and parent	2020		
Loan type	Carrying Value $'000	Commitments $'000	Maximum exposure $'000
Mortgages	1,132,912	102,527	1,235,439
Personal	46,739	3,128	49,867
Credit cards and overdrafts	15,399	20,621	36,020
Total loans	1,195,050	126,276	1,321,326

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in note 24.

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

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are credit worthy (capable of meeting loan repayments).

The 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 the 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 11.

Collateral securing loans
A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the 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 10 describes the nature and extent of the security held against the loans held as at the reporting date.

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

Concentration risk - individuals
Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the 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.

The 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.

The Bank's policy on exposures of this size is to insist on an initial Loan to Valuation ratio ('LVR') of no more than 80%, excluding First Home Loan Deposit Scheme loans, and bi-annual reviews of compliance with this policy are conducted.

For loans with LVR of more than 80%, excluding First Home Loan Deposit Scheme loans, the Bank requires Lender's Mortgage Insurance to protect the Bank from adverse movements in housing market values.

Concentration risk - industry
The 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 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.

The Bank has proactively worked with members impacted by COVID-19 by being able to efficiently implement processes around management of members in hardship. The Bank has effectively been able to work with members within the legislated time frames and has provided appropriate assistance by way of loan repayment deferrals, reduction of loan repayments or restructuring of loans.

The Bank has been able to navigate through the current pandemic quite well given the relative minimal impact to of our core member base in relation to their jobs and ongoing income.

The Bank has seen a positive increase over the last few months with volumes of loan applications and loan fundings. Home Loans applications and funding volumes continue to be strong with a significant uptake by first home buyers particularly taking advantage of the First Home Loan Deposit Scheme.

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 the Bank incurring a financial loss. This occurs when a debtor fails to settle their obligations owing to the 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:

Consolidated and parent	2021		
Investments with:	Carrying Value $'000	Past due value $'000	Provision $'000
Government bonds - rated Aaa	18,032	-	4
Cuscal - rated A-1	14,790	-	1
Banks - rated below Aaa	179,492	-	51
Total	212,314	-	56

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

Consolidated and parent Investments with:	2020 Carrying Value $'000	Past due value $'000	Provision $'000
Government bonds - rated Aaa	45,189	-	5
Cuscal - rated A-1	14,790	-	9
Banks - rated below Aaa	138,438	-	30
Total	198,417	-	44

Liquidity risk

Liquidity risk is the risk that the Bank may encounter difficulties in 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.

The 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.

The 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, 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. The borrowing facilities as at the reporting date are described in note 25.

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.

Consolidated and parent Liabilities	2021 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
Borrowings from financial and other institutions	74,638	-	-	-	74,976	-	-	74,976
Deposits from other financial institutions	135,498	38,401	81,744	15,598	342	-	-	136,085
Deposits from members - at call	763,600	763,493	-	-	-	-	107	763,600
Deposits from members - term	422,324	40,408	104,959	245,740	33,274	-	-	424,381
Interest payable on deposits	2,876	2,876	-	-	-	-	-	2,876
Derivative liability	342	-	-	206	136	-	-	342
Lease liabilities	2,081	-	262	786	1,091	-	-	2,139
Total Financial Liabilities	1,401,359	845,178	186,965	262,330	109,819	-	107	1,404,399

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

Consolidated and parent Liabilities	2020 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
Borrowings from financial and other institutions	35,403	-	-	-	35,669	-	-	35,669
Deposits from other financial institutions	146,372	-	144,604	2,351	691	-	-	147,646
Deposits from members - at call	630,548	630,445	-	-	-	-	103	630,548
Deposits from members - term	535,029	-	194,490	283,535	60,687	-	-	538,712
Interest payable on deposits	5,457	5,457	-	-	-	-	-	5,457
Derivative liability	959	-	73	80	806	-	-	959
Lease liabilities	3,034	-	252	755	2,139	-	-	3,146
Total Financial Liabilities	1,356,802	635,902	339,419	286,721	99,992	-	103	1,362,137

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

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the 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.

Due to COVID-19, the Bank enacted its Pandemic Plan as part of the overall Business Continuity Plan. Some of the measures put in place, as needed, include:

- front-office staff on-site in branches with social distancing measures being enforced. Additional physical barriers have also been implemented as extra precautions;
- back-office staff are working from home with scheduled on-site and off-site rosters. Regular touch points with their Manager have also been scheduled; and
- the Contact Centre team has been split across locations to manage any potential for the spread of any contagion.

The Bank continues to operate without any major disruption.

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

Fair value of financial instruments
The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the Bank and company are as follows:

Consolidated and parent	30 June 2021 Carrying amount $'000	30 June 2021 Fair value $'000	30 June 2020 Carrying amount $'000	30 June 2020 Fair value $'000
Financial assets				
Cash and cash equivalents*	32,652	32,652	38,205	38,205
Other financial assets	212,336	213,367	198,447	198,416
Receivables*	7,623	7,623	4,954	4,954
Loans to members	1,236,435	1,236,276	1,192,966	1,194,992
Other loans	10,607	10,798	17,588	17,616
	1,499,653	1,500,716	1,452,160	1,454,183
Financial liabilities				
Borrowings*	74,638	74,638	35,403	35,403
Deposits from other financial institutions	135,498	135,539	146,372	146,989
Deposits from members – at call*	763,493	763,493	630,445	630,445
Deposits from members – term	422,324	424,374	535,029	535,029
Interest payable on deposits*	2,876	2,876	5,457	5,457
Derivative liability*	342	342	959	959
Lease liabilities	2,081	2,081	3,034	3,034
	1,401,252	1,403,343	1,356,699	1,357,316

* 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 financial statements 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. The fair values of receivables due from other financial institutions redeemable after 12 months is calculated by utilising discounted cash flow models (.i.e. the net present value of future cash flows).

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.

Notes to the financial statements

Note 22. Financial risk management objectives and policies (continued)

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

The 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 comprises of the general reserve for credit losses and term subordinated debt, which contribute 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 2021 and 30 June 2020, the Bank's capital ratio complied with its required Prudential Capital Ratio.

Note 23. Fair value measurement

Fair value hierarchy
The following tables detail the Bank's and company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated and parent - 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets (note 8)	-	-	22	22
Total assets	-	-	22	22
Liabilities				
Trade and other payables - derivative liability (note 19)	-	342	-	342
Total liabilities	-	342	-	342

Consolidated and parent - 30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets (note 8)	-	-	30	30
Total assets	-	-	30	30
Liabilities				
Trade and other payables - derivative liability (note 19)	-	959	-	959
Total liabilities	-	959	-	959

There were no transfers between levels during the financial year.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Unquoted investments have been valued using a discounted cash flow model.

Notes to the financial statements

Note 24. Commitments

	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000
Outstanding loan commitments				
The loans approved but not funded	24,489	19,972	24,489	19,972
Loan redraw facilities				
The loan redraw facilities available	95,632	85,684	95,632	85,684
Undrawn loan facilities				
Loan facilities available to members for overdrafts and line of credit loans are as follows:				
Total value of facilities approved	33,022	36,020	33,022	36,020
Less: Amount advanced	(14,130)	(15,399)	(14,130)	(15,399)
Net undrawn value	18,892	20,621	18,892	20,621
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.				
Total financial commitments	139,013	126,277	139,013	126,277

	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000
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	1,300	1,300	1,300	1,300
Later than one year but not later than five years	3,900	5,200	3,900	5,200
	5,200	6,500	5,200	6,500

Note 25. Standby borrowing facilities

Australian Military Bank has a number of borrowing facilities.

Consolidated and parent - 2021	Gross $'000	Current borrowing $'000	Net available $'000
Overdraft facility - Cuscal	3,000	-	3,000
Loan facility - Other	50,000	4,919	45,081
Total standby borrowing facilities	53,000	4,919	48,081

Consolidated and parent - 2020	Gross $'000	Current borrowing $'000	Net available $'000
Overdraft facility - Cuscal	3,000	-	3,000
Loan facility - Other	50,000	7,504	42,496
Total standby borrowing facilities	53,000	7,504	45,496

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.

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Notes to the financial statements

Note 26. Securitisation vehicle

The Bank enters into transactions by which it transfers financial assets which are eligible mortgages to a special purpose entity, Artemis Trust, for the sole purpose of repurchase with the Reserve Bank of Australia under its liquidity management policy. Financial assets do not qualify for derecognition. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000
Carrying amount of transferred assets	-	-	458,136	608,211
Carrying amount of associated liabilities	-	-	(458,136)	(608,211)
Net position	-	-	-	-

The parent holds all the notes issued by Artemis Trust.

	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000	Parent 30 June 2021 $'000	Parent 30 June 2020 $'000
For those liabilities that have recourse only to the transferred assets				
Fair value of transferred assets	-	-	458,136	608,498
Fair value of associated liabilities	-	-	(458,136)	(608,498)
Net position	-	-	-	-

Note 27. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel ('KMP') of the Bank is set out below:

	Consolidated 30 June 2021 $	Consolidated 30 June 2020 $	Parent 30 June 2021 $	Parent 30 June 2020 $
Short-term employee benefits	1,547,687	1,494,370	1,547,687	1,494,370
Post-employment benefits	108,350	101,293	108,350	101,293
Long-term benefits	8,476	5,385	8,476	5,385
	1,664,513	1,601,048	1,664,513	1,601,048

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

Loans to KMP
The 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.

	2021 Mortgage secured $	2021 Other Term Loans $	2021 Credit cards $	2020 Mortgage secured $	2020 Other Term Loans $	2020 Credit cards $
Funds available to be drawn	-	-	10,926	-	-	12,789
Balance	868,368	49,568	11,074	902,601	57,688	9,211
Amounts disbursed or facilities increased in the year	-	-	-	-	60,000	-
Interest and other revenue earned	26,440	3,046	997	48,013	1,111	678

Notes to the financial statements

Note 27. Key management personnel disclosures (continued)

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

	2021 $	2020 $
Total value term and savings deposits from KMP	535,588	528,108
Total interest paid on deposits to KMP	7,393	10,345

The 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.

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.

The 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.

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the company:

	Consolidated		Parent	
	2021 $	2020 $	2021 $	2020 $
Audit services - KPMG				
Audit of the financial statements	117,500	135,000	117,500	135,000
Assurance services - KPMG				
Regulatory assurance services	72,000	70,000	72,000	70,000
Other assurance services	48,000	-	48,000	-
	120,000	70,000	120,000	70,000
Other services - KPMG				
Taxation	15,000	16,600	15,000	16,600
Other tax services	14,000	-	14,000	-
	29,000	16,600	29,000	16,600
	266,500	221,600	266,500	221,600

Note 29. Outsourcing arrangements

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

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 the Bank's Electronic Data Processing systems.

The Bank invests part of its liquid assets with Cuscal.

Notes to the financial statements

Note 29. Outsourcing arrangements (continued)

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

Infosys Technologies Limited
Provides banking platform services and technology consulting services to the Bank.

Note 30. Changes in liabilities arising from financing activities

Consolidated and parent	Borrowings from financial institutions $'000	Derivatives $'000	Lease liabilities $'000	Total $'000
Balance at 1 July 2019	35,000	1,063	-	36,063
Net cash from/(used in) financing activities	403	13	(904)	(488)
Additions	-	-	3,947	3,947
Others	-	(117)	-	(117)
Balance at 30 June 2020	35,403	959	3,043	39,405
Net cash from/(used in) financing activities	39,235	(20)	(962)	38,253
Others	-	(597)	-	(597)
Balance at 30 June 2021	74,638	342	2,081	77,061

Note 31. Contingent liabilities

There are no contingent liabilities as at 30 June 2021 and 30 June 2020.

Note 32. Events after the reporting period

The consequences of the Coronavirus (**COVID-19**) pandemic are continuing to be felt around the world, and its impact on the Bank, if any, has been reflected in its published results to date. Whilst it would appear that control measures and related government policies, including the roll out of the vaccine, have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the Bank's operations going forward. The Bank now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Bank's operations, the results of those operations, or the Bank's state of affairs in future financial years.

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Australian Accounting Standards and the Corporations Regulations 2001;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's and Bank's financial position as at 30 June 2021 and of their performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

John Robert Brooks
Chair

Alan Bardwell
Deputy Chair

28 September 2021
Sydney

KPMG

Independent Auditor's Report

To the Members of Australian Military Bank Ltd

Opinion

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

In our opinion, the accompanying Financial Reports of the Company and the Bank are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Company*** and ***Bank***'s financial position as at 30 June 2021 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 Reports*** of the Company and the Bank comprise:

- Statements of financial position as at 30 June 2021;
- Statements of profit or loss and other comprehensive income, Statement of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Bank*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit 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 opinion.

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

We are independent of the Company and Bank 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Other Information

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

Our opinion on the Financial Reports does 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 audit 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 the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company and Bank'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 Bank and/or Company or to cease operations, or have no realistic alternative but to do so.

KPMG

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *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 Reports.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar3_2020.pdf This description forms part of our Auditor's Report.

KPMG

Quang Dang

KPMG

Quang Dang

Partner

Sydney

1 October 2021

Corporate directory

Directors

- John Brooks
- Alan Bardwell
- Michael Crane, DSC & Bar AM
- Sean FitzGerald
- Jonathan Sadlier AM
- Bruce Scott, CSC, ADC
- Rebecca Tolhurst

Chief Executive Officer

- Darlene Mattiske-Wood

Company Secretary

- Stephanie Vass

Website

www.australianmilitarybank.com.au

Registered Office

Level 18,
45 Clarence Street,
Sydney NSW 2000

Auditor

KPMG
Level 38, Tower Three,
International Towers Sydney,
300 Barangaroo Avenue,
Sydney NSW 2000

Defence Image Index Source: Department of Defence

Australian Army soldiers leave a landing zone after being dropped off by an MV-22B Osprey with Marine Medium Tiltrotor Squadron 363 (Reinforced), Marine Rotational Force – Darwin, during exercise Crocodile Response at Point Fawcett, NT, Australia, May 24, 2021. Exercise Crocodile Response tested the ability of MRF-D and the Australian Defence Force to provide disaster relief in the Indo-Pacific region. The rotational deployment of U.S. Marines affords a combined training opportunity with Australia and improves cooperation and integration between the two country's forces. (U.S. Marine Corps photo by Sgt. Micha Pierce).

Royal Australian Air Force Armament Technicians Corporal Damien Powers (L) and Leading Aircraftman Joshua Sciberras (R) from No. 75 Squadron load a Mark 83 AIR high explosive ordnance onto a F/A-18A Hornet during Exercise Arnhem Thunder 21.

Australian Military Bank Ltd ABN 48 087 649 741 AFSL and Australian Credit Licence Number 237 988

Australian Military Bank