Annual Report

Financial Report

2023

Australian Military Bank

our members are our mission

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 Limited (the 'Company' or 'Parent') and the consolidated entity (referred to hereafter as the 'Bank' or 'consolidated entity') consisting of the Company and the entities it controlled at the end of, or during, the year ended 30 June 2023.

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:

Alan Bardwell - Chair (from 1 July 2023 and Deputy Chair until 30 June 2023)
Sean Fitzgerald - Deputy Chair (from 1 July 2023)
John Brooks - (Chair until 30 June 2023)
Michael Crane DSC & BAR AM
Timothy Pike
Francesca Rush
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 $2,628,071 (30 June 2022: $1,988,000) attributed to the rising interest rate environment that existed during most of the financial year. The Bank also continued to invest in strengthening its governance, risk and compliance structures as well as investing for future growth.

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

No matter or circumstance has arisen since 30 June 2023 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

Name:
Alan Bardwell

Title:
Chair (Chair from 1 July 2023; Director from 1 April 2019)

Qualifications:
Alan is a Member 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 40 years of 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 Chief Risk Officer. Since 2017 Alan has pursued a non-executive director career. Alan is a non-executive director of ClearView Life Nominees Pty Limited and the Financial Services Institute of Australasia (FINSIA). Alan is also a consultant to advisory group The Risk Group and a member of the Admissions Committee for the Sydney Stock Exchange. Alan formerly served as Chair of RT Health Limited, Chair of Ku-ring-gai Financial Services Limited and a non-executive director of Transport Health Limited. Alan has extensive knowledge of retail, corporate and investment banking, wealth and funds management and the securities industry.

Special responsibilities:
Chair of the Board and member of the Risk Committee and the Governance & Remuneration Committee.

Name:
Sean Fitzgerald

Title:
Deputy Chair (Deputy Chair from 1 July 2023; Director from 25 May 2018)

Qualifications:
Sean holds a Certificate IV in 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 the Mortgage Finance Association of Australia.

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, Western Australia's largest member owned bank. Sean's responsibilities included 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.

Special responsibilities:
Deputy Chair of the Board, Chair of the Risk Committee and a member of the Audit Committee.

Directors' report

Information on directors

Name:
John Brooks

Title:
Director (Chair until 30 June 2023; 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 more than 20 years of experience as a mutual bank director, including as Chair of the Bank, served for 28 years in the RAAF Logistics Branch and spent 12 years as a small business owner.

Special responsibilities:
Chair of the Audit Committee and member of the Governance & Remuneration Committee Meeting.

Name:
Michael Crane DSC & BAR AM

Title:
Director (from 1 July 2018)

Qualifications:
Michael is a Graduate Member of the Australian Institute of Company Directors and a graduate of the Mt Eliza General Management Program, the Harvard Club of Australian Leadership Program and the Financial Services Institute of Australasia Professional Banking Fundamentals Course. 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 operational service in East Timor and two tours commanding all Australian forces in the Middle East. He serves on the Committees of Lord's Taverners (ACT) and the Field Marshal Sir Thomas Blamey Memorial Fund.

Special responsibilities:
Chair of the Governance & Remuneration Committee and member of the Audit Committee.

Directors' report

Information on directors

Name:
Timothy Pike

Title:
Director (from 1 August 2022)

Qualifications:
Tim holds Masters degrees in Business, Military and Defence Studies and Cyber Security Operations and is a Member of the Australian Institute of Company Directors.

Experience and expertise:
Tim has served in the Australian Army since 1999 and is currently Deputy Director of the Electronic Warfare Program in the Department of Defence with responsibility for the governance and execution of the Army's electronic warfare capability. Prior to this, he was Commanding Officer of the 7th Signal Regiment and previously served in a number of senior positions with responsibility for information technology, cyber security, communications and border security operations.

Special responsibilities:
Member of the Risk Committee.

Name:
Francesca Rush

Title:
Director (from 22 March 2022)

Qualifications:
Francesca holds a degree in Law (Honours).

Experience and expertise:
Francesca has over 30 years' experience as a lawyer in private legal practice and in government. She was a Partner of Clayton Utz in the years 2003 to 2008 and from 2011 to 2019, which included serving as National Practice Group Leader for the Banking and Financial Services practice. Francesca is currently Chief Counsel – Commercial and First Assistant Secretary – Australian Industry Capability in the Department of Defence. As Chief Counsel - Commercial, Francesca has responsibility for providing strategic legal advice on complex contracting and procurement matters to Defence leadership and to Government. As First Assistant Secretary – Australian Industry Capability, Francesca is leading work to maximise Australian industry participation in the defence sector.

Special responsibilities:
Member of the Risk Committee.

Directors' report

Information on directors

Name:
Rebecca Tolhurst

Title:
Director (from 1 July 2020)

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

Experience and expertise:
Rebecca commenced her career in private legal practice in 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 sectors in a transactional and strategic capacity. Rebecca also holds the position of Chair of the Barossa Co-op, a retail co-operative founded in 1944 operating in her home region of the Barossa Valley.

Special responsibilities:
Member of the Audit Committee and the Governance & Remuneration Committee.

Information on Chief Executive Officer

Name:
Darlene Mattiske-Wood

Title:
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, currently, as a Director of the Customer Owned Banking Association (COBA) and, previously, as 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 Australian Human Resource Institute (AHRI) awards for People Leadership and People Strategy.

Company secretary

Name:
Nicholas Parkin

Title:
General Counsel & Company Secretary

Qualifications:
Nick holds degrees in Commerce and Law along with a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia. He is a graduate of the Australian Institute of Company Directors.

Experience and expertise:
Nick has 20 years' experience working as a lawyer, company secretary and governance professional in Australia, the United Kingdom and New Zealand.

Nick has worked in private practice as lawyer in the areas of corporate law, capital markets and financial services and as a lawyer and/or company secretary in Australian corporates including Worley Limited, Helloworld Limited, Australian Ethical Investment Limited, Insurance Australia Group Limited and Westpac.

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 2023, and the number of meetings attended by each director were:

	Board		Risk Committee		Audit Committee		Governance and Remuneraton Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A.Bardwell	8	7	6	6	5	5	-	-
S.Fitzgerald	8	8	6	6	5	5	-	-
J.Brooks	8	6	-	-	-	-	1	0
M.Crane	8	8	-	-	5	5	7	7
T.Pike	8	7	-	-	-	-	-	-
F. Rush	8	7	6	6	-	-	-	-
R.Tolhurst	8	8	6	6	-	-	7	7

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 2023 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.

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

Alan Bardwell
Chair

4 October 2023
Sydney

Sean Fitzgerald
Deputy Chair

4 October 2023
Sydney

KPMG

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 2023 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

Quang Dang

Partner

Sydney

4 October 2023

Statements of profit or loss and other comprehensive income

	Note	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000	Parent 30 June 2023 $'000	Parent 30 June 2022 $'000
Interest revenue	3	66,246	38,162	66,246	38,162
Interest expense	4	(30,394)	(7,623)	(30,394)	(7,623)
Net interest income		35,852	30,539	35,852	30,539
Fee commission and other income	3	4,172	4,385	4,172	4,385
Fee and commission expenses		(4,212)	(5,607)	(4,212)	(5,607)
		(40)	(1,222)	(40)	(1,222)
Net operating income before expenses		35,812	29,317	35,812	29,317
Operating expenses					
Impairment expenses	4	(270)	(148)	(270)	(148)
Employees compensation and benefits expenses		(17,597)	(16,865)	(17,597)	(16,865)
Administration expenses		(5,178)	(3,229)	(5,178)	(3,229)
Information technology		(4,038)	(3,510)	(4,038)	(3,510)
Office occupancy expenses		(500)	(736)	(500)	(736)
Depreciation and amortisation	4	(1,187)	(1,069)	(1,187)	(1,069)
Other operating expenses		(3,514)	(1,221)	(3,514)	(1,221)
Profit before income tax expense		3,528	2,539	3,528	2,539
Income tax expense	5	(900)	(551)	(900)	(551)
Profit after income tax expense for the year attributable to the members of Australian Military Bank Ltd		2,628	1,988	2,628	1,988
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Gains on cash flow hedges taken to equity Items (net of tax)		136	947	136	947
Other comprehensive income for the year, net of tax		136	947	136	947
Total comprehensive income for the year attributable to the members of Australian Military Bank Ltd		2,764	2,935	2,764	2,935

Statements of financial position

	Note	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000	Parent 30 June 2023 $'000	Parent 30 June 2022 $'000
Assets					
Cash and cash equivalents	6	41,297	30,823	41,297	30,823
Other financial assets	7	240,807	230,409	240,807	230,409
Receivables and other assets	8	9,768	8,644	9,768	8,644
Loans to members	9	1,446,750	1,325,811	1,446,750	1,325,811
Other loans	11	2,501	7,358	2,501	7,358
Property, plant and equipment	12	927	831	927	831
Right-of-use assets	13	6,364	732	6,364	732
Deferred tax assets	15	524	633	524	633
Intangible assets	14	50	77	50	77
Total assets		1,748,988	1,605,318	1,748,988	1,605,318
Liabilities					
Borrowings from financial and other institutions	16	39,234	74,638	39,234	74,638
Deposits	17	1,583,707	1,418,305	1,583,707	1,418,305
Creditors, accruals and other liabilities	18	12,207	6,722	12,207	6,722
Lease liabilities	13	6,148	1,079	6,148	1,079
Employee benefits		2,058	1,704	2,058	1,704
Total liabilities		1,643,354	1,502,448	1,643,354	1,502,448
Net assets		105,634	102,870	105,634	102,870
Equity					
Reserves	19	844	1,878	844	1,878
Retained earnings		104,790	100,992	104,790	100,992
Total equity		105,634	102,870	105,634	102,870

Statements of changes in equity

Consolidated and Parent	General reserve for credit losses $'000	Cash flow hedge reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2021	1,170	(239)	99,004	99,935
Profit after income tax expense for the year	-	-	1,988	1,988
Other comprehensive income for the year, net of tax	-	947	-	947
Total comprehensive income for the year	-	947	1,988	2,935
Balance at 30 June 2022	1,170	708	100,992	102,870

Consolidated and Parent	General reserve for credit losses $'000	Cash flow hedge reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2022	1,170	708	100,992	102,870
Profit after income tax expense for the year	-	-	2,628	2,628
Other comprehensive income for the year, net of tax	-	136	-	136
Total comprehensive income for the year	-	136	2,628	2,764
Transactions with members in their capacity as members:				
Transfer to retained earnings from general reserve for credit losses (note 19)	(1,170)	-	1,170	-
Balance at 30 June 2023	-	844	104,790	105,634

Statements of cash flows

	Note	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000	Parent 30 June 2023 $'000	Parent 30 June 2022 $'000
Cash flows from operating activities					
Profit before income tax expense for the year		3,528	2,539	3,528	2,539
Adjustments for:					
Depreciation and amortisation		1,187	1,069	1,187	1,069
Impairment expenses		262	148	262	148
Other non-cash items		49	-	49	-
Interest revenue		(66,246)	(38,162)	(66,246)	(38,162)
Interest expense		30,394	7,623	30,394	7,623
		(30,826)	(26,783)	(30,826)	(26,783)
Change in operating assets and liabilities:					
(Increase) in prepayments		(61)	(423)	(61)	(423)
(Increase)/decrease in sundry receivables		(2,214)	3,833	(2,214)	3,833
(Increase) in loan balances		(121,226)	(89,702)	(121,226)	(89,702)
Decrease in other loans		4,878	3,102	4,878	3,102
Increase in deposit balances		165,403	96,883	165,403	96,883
Increase in other provisions		354	219	354	219
(Decrease)/increase in accrued expenses		(1,280)	1,668	(1,280)	1,668
		15,028	(11,203)	15,028	(11,203)
Interest received		65,121	37,877	65,121	37,877
Interest expense paid		(23,584)	(8,755)	(23,584)	(8,755)
Income taxes net received/(paid)		1,572	(265)	1,572	(265)
Net cash from operating activities		58,137	17,654	58,137	17,654
Cash flows from investing activities					
Increase in other financial assets		(10,394)	(18,080)	(10,394)	(18,080)
Payments for property, plant and equipment		(524)	(388)	(524)	(388)
Net cash used in investing activities		(10,918)	(18,468)	(10,918)	(18,468)
Cash flows from financing activities					
Decrease in hedging derivatives		(46)	(13)	(46)	(13)
Repayments for borrowings		(35,404)	-	(35,404)	-
Repayment of lease liabilities		(1,295)	(1,002)	(1,295)	(1,002)
Net cash used in financing activities		(36,745)	(1,015)	(36,745)	(1,015)
Net increase/(decrease) in cash and cash equivalents		10,474	(1,829)	10,474	(1,829)
Cash and cash equivalents at the beginning of the financial year		30,823	32,652	30,823	32,652
Cash and cash equivalents at the end of the financial year	6	41,297	30,823	41,297	30,823

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.

The Artemis Securitisation Trust Repo Series No. 1 (Artemis Trust) is a self-securitisation trust established for liquidity purposes. Artemis Trust is consolidated as part of the Bank and at the parent entity level did not achieve de-recognition under AASB 9. Hence consolidated entity and parent entity numbers disclosed in the financial statements are the same.

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 1,1 Bligh 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 4 October 2023. 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 either in the respective notes or 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Bank.

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.

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 2023 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.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

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.

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, creditors, accruals and other liabilities and lease liabilities.

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.

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 inconsistent 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.

Notes to the financial statements

Note 2. Significant accounting policies (continued)

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.

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.

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, that 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 10 – Provision for expected credit losses.

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 2023.

Note 3. Revenue and income

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Interest revenue				
Cash and cash equivalents	159	-	159	-
Due from other financial institutions	8,665	734	8,665	734
Loans to members and other loans	57,422	37,428	57,422	37,428
Total interest revenue	66,246	38,162	66,246	38,162

Notes to the financial statements

Note 3. Revenue and income (continued)

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Fee, commission and other income				
Fee income on loans – other than loan origination fees	764	824	764	824
Other fee income	1,678	1,736	1,678	1,736
Insurance commissions	935	910	935	910
Other commissions	634	587	634	587
Total fee and commission revenue	4,011	4,057	4,011	4,057
Other income				
Miscellaneous revenue	161	328	161	328
Total fee commission and other income	4,172	4,385	4,172	4,385

Accounting policy for revenue and income

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.

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.

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.

Notes to the financial statements

Note 4. Expenses

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	271	221	271	221
Leasehold improvements	157	88	157	88
Buildings right-of-use assets	732	732	732	732
Software	27	28	27	28
Total depreciation and amortisation	1,187	1,069	1,187	1,069
Impairment and other losses				
Impairment (gains)/losses on loans to members, other loans, other financial assets and deposits on call:				
Increase/(decrease):				
Provision for impairment	42	(55)	42	(55)
Bad debts written off directly against profit	361	396	361	396
Bad debts recovered	(133)	(193)	(133)	(193)
Total impairment losses	270	148	270	148
Interest expense				
Interest expense on liabilities carried at amortised cost - Deposits	29,300	6,877	29,300	6,877
Interest expense on liabilities carried at amortised cost - Borrowings	1,067	714	1,067	714
Interest and finance charges paid/payable on lease liabilities	27	32	27	32
Total interest expense	30,394	7,623	30,394	7,623
Superannuation expenses (included in Employees compensation and benefit expenses)				
Defined contribution superannuation expense	1,564	1,262	1,564	1,262

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

Notes to the financial statements

Note 5. Income tax expense

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Income tax expense				
Current tax	935	403	935	403
Deferred tax - origination and reversal of temporary differences note 15	(35)	457	(35)	457
Overprovision of current tax of prior periods	-	(309)	-	(309)
Aggregate income tax expense	900	551	900	551
Deferred tax included in income tax expense comprises:				
Decrease in deferred tax assets (note 15)	(35)	457	(35)	457
Numerical reconciliation of income tax expense and tax at the statutory rate				
Profit before income tax expense	3,528	2,539	3,528	2,539
Tax at the statutory tax rate of 30% (2022: 25%)	1,058	635	1,058	635
Tax effect amounts which are not deductible in calculating taxable income:				
Non deductible	17	-	17	
Others	(175)	225	(175)	225
	900	860	900	860
Overprovision of current tax of prior periods	-	(309)	-	(309)
Income tax expense	900	551	900	551

Accounting policy for income and deferred 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 or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the financial statements

Note 6. Cash and cash equivalents

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Cash on hand	772	786	772	786
Deposits on call	40,525	30,037	40,525	30,037
	41,297	30,823	41,297	30,823

Included within cash and cash equivalents at 30 June 2023 is $5,572,059 and $110,070 for liquidity and expense reserve respectively (2022: $7,635,612 and $110,070) held within Artemis Securitisation Trust Repo Series No. 1 (Artemis Trust), which is a self-securitisation trust established for liquidity purposes.

Accounting policy for 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.

Note 7. Other financial assets

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Investments at amortised cost				
Negotiable Certificate of Deposits	165,652	145,543	165,652	145,543
Floating rate notes	34,029	37,046	34,029	37,046
Government bonds	20,964	33,008	20,964	33,008
Term deposits	20,140	14,790	20,140	14,790
	240,785	230,387	240,785	230,387
Equity investment securities designated as FVTPL				
Shared Lending Pty Ltd shareholding	20	20	20	20
CUSCAL shareholding	2	2	2	2
	240,807	230,409	240,807	230,409

Refer to note 22 for further information on fair value measurement.

Accounting policy for other financial assets

Investments at amortised cost
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.

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.

Notes to the financial statements

Note 7. Other financial assets (continued)

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 equity and derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Note 8. Receivables and other assets

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Interest receivable on deposits with other financial institutions	1,681	555	1,681	555
Prepayments	688	627	688	627
Derivatives	1,211	980	1,211	980
Income tax refund due	658	3,166	658	3,166
Sundry debtors and settlement accounts	5,530	3,316	5,530	3,316
	9,768	8,644	9,768	8,644

Accounting policies
Refer to the following notes for accounting policies:
- note 3 for interest receivable
- note 10 for provision for expected credit losses.

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.

Note 9. Loans to members

Loans to members comprise of financial assets at amortised cost

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Loans to members[1]	1,446,768	1,326,079	1,446,768	1,326,079
Add: Unamortised loan origination expenses	831	522	831	522
Subtotal	1,447,599	1,326,601	1,447,599	1,326,601
Less: Allowance for expected credit losses	(849)	(790)	(849)	(790)
	1,446,750	1,325,811	1,446,750	1,325,811
Loans to members comprises				
Overdrafts and revolving credit	10,449	11,611	10,449	11,611
Term loans	1,436,319	1,314,468	1,436,319	1,314,468
	1,446,768	1,326,079	1,446,768	1,326,079

Notes to the financial statements

Note 9. Loans to members (continued)

[1]$1,446,117,915 (2022: $1,325,075,000) is expected to contractually mature in more than 12 months after the reporting date for the consolidated entity.

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Credit quality - security held against loans				
Secured by mortgage over real estate	1,397,484	1,268,194	1,397,484	1,268,194
Partly secured by vehicle mortgage	28,655	33,433	28,655	33,433
Wholly unsecured	20,629	24,452	20,629	24,452
	1,446,768	1,326,079	1,446,768	1,326,079
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:				
Security held as mortgage against real estate is on the basis of:				
loan to valuation ratio of less than or equal to 80%	1,022,227	948,030	1,022,227	948,030
loan to valuation ratio of more than 80% but mortgage insured	208,803	205,563	208,803	205,563
loan to valuation ratio of more than 80% and not mortgage insured (including First Home Loan Deposit Scheme loans)	166,454	114,601	166,454	114,601
Total	1,397,484	1,268,194	1,397,484	1,268,194

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.

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Concentration of loans by purpose				
Residential mortgage loans[2]	1,397,484	1,268,194	1,397,484	1,268,194
Personal loans	39,090	46,300	39,090	46,300
Credit cards and overdrafts	10,194	11,585	10,194	11,585
Total	1,446,768	1,326,079	1,446,768	1,326,079

[2]Of this amount $331,800,000 (2022: $357,194,000) were securitised and transferred to Artemis Trust that was 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:

Notes to the financial statements

Note 9. Loans to members (continued)

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Current not overdue	1,426,539	1,305,750	1,426,539	1,305,750
1 to 89 days	18,627	19,489	18,627	19,489
90 days to 180 days	927	143	927	143
181 days to 272 days	100	92	100	92
273 days to 364 days	11	376	11	376
365 days and over	564	229	564	229
	1,446,768	1,326,079	1,446,768	1,326,079

Accounting policy for loans to members
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.

Note 10. Provision for expected credit losses ('ECL')

Amounts arising from ECL
The provision for ECL by class of exposure/asset is summarised in the table below.

	Gross Carrying Value 2023 $'000	ECL Allowance 2023 $'000	Carrying Value 2023 $'000	Gross Carrying Value 2022 $'000	ECL Allowance 2022 $'000	Carrying Value 2022 $'000
Loans to members						
Mortgages	1,397,484	94	1,397,391	1,268,194	64	1,268,130
Personal	39,090	408	38,681	46,300	303	45,997
Credit cards and overdrafts	10,194	347	9,847	11,585	423	11,162
Total loans to members	1,446,768	849	1,445,919	1,326,079	790	1,325,289
Other loans						
Marketplace lending	2,627	126	2,501	7,505	147	7,358
Other financial assets						
Due from other financial institutions	240,852	67	240,785	230,387	60	230,327
Deposits at call	40,525	-	40,525	30,037	3	30,034
Total other financial assets	281,377	67	281,310	260,424	63	260,361
Total	1,730,772	1,042	1,729,730	1,594,008	1,000	1,593,008

Included in the amount is $1,350 (2022: $138) provision for loan commitments that have not commenced drawdown with the carrying value $21,788,028 (2022: $1,441,825). These commitments are all classified as Stage 1. Loan commitments outstanding for facilities that have been partially drawn upon total $11,795,781 (2022: $26,620,331) 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.

Notes to the financial statements

Note 10. Provision for expected credit losses ('ECL') (continued)

	Stage 1 Carrying Value 2023 $'000	Stage 1 12 month ECL 2023 $'000	Stage 2 Carrying Value 2023 $'000	Stage 2 Lifetime ECL 2023 $'000	Stage 3 Carrying Value 2023 $'000	Stage 3 Lifetime ECL 2023 $'000	Total Carrying Value 2023 $'000	Total ECL 2023 $'000
Mortgages	1,389,211	35	7,296	31	978	28	1,397,485	94
Personal	38,630	133	133	39	326	236	39,089	408
Overdrafts	9,739	107	158	28	297	212	10,194	347
Total loans to members	1,437,580	275	7,587	98	1,601	476	1,446,768	849
Other loans	2,540	58	20	5	67	63	2,627	126
Other financial assets	240,852	67	-	-	-	-	240,852	67
Deposits on call	40,525	-	-	-	-	-	40,525	-
Total	1,721,497	400	7,607	103	1,668	539	1,730,772	1,042

	Stage 1 Carrying Value 2022 $'000	Stage 1 12 month ECL 2022 $'000	Stage 2 Carrying Value 2022 $'000	Stage 2 Lifetime ECL 2022 $'000	Stage 3 Carrying Value 2022 $'000	Stage 3 Lifetime ECL 2022 $'000	Total Carrying Value 2022 $'000	Total ECL 2022 $'000
Mortgages	1,263,709	44	4,132	7	353	13	1,268,194	64
Personal	45,956	106	133	18	211	179	46,300	303
Overdrafts	11,240	98	174	21	171	304	11,585	423
Total loans to members	1,320,905	248	4,439	46	735	496	1,326,079	790
Other loans	7,388	94	43	10	74	43	7,505	147
Other financial assets	230,387	60	-	-	-	-	230,387	60
Deposits on call	30,037	3	-	-	-	-	30,037	3
Total	1,588,717	405	4,482	56	809	539	1,594,008	1,000

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 2023 $'000	Stage 2 Lifetime ECL 2023 $'000	Stage 3 Lifetime ECL 2023 $'000	Total 2023 $'000
Loans to members and other loans				
Balance as at 30 June 2022	342	56	539	937
Change in the loss allowance	(9)	47	-	38
Balance at 30 June 2023	333	103	539	975
Other financial assets				
Balance as at 30 June 2022	63	-	-	63
Change in the loss allowance	4	-	-	4
Balance at 30 June 2023	67	-	-	67
Total	400	103	539	1,042

Notes to the financial statements

Note 10. Provision for expected credit losses ('ECL') (continued)

	Stage 1 12 month ECL 2022 $'000	Stage 2 Lifetime ECL 2022 $'000	Stage 3 Lifetime ECL 2022 $'000	Total 2022 $'000
Loans to members and other loans				
Balance as at 30 June 2021	354	182	463	999
Change in the loss allowance	(12)	(126)	76	(62)
Balance at 30 June 2022	342	56	539	937
Other financial assets				
Balance as at 30 June 2021	56	-	-	56
Change in the loss allowance	7	-	-	7
Balance at 30 June 2022	63	-	-	63
Total	405	56	539	1,000

Stage 1 is defined as being less than 30 days past due and not experiencing financial hardship. Stage 2 is defined as either between 30 days past due and 90 days past due, or less than 30 days past due but flagged for financial hardship. Stage 3 is defined as loans greater than or equal to 90 days past due.

Accounting policy for 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, including fixed rate government bonds, 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: 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); 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, ECL are measured based on the expected cash flows arising from the modified financial asset which are included in calculating the cash shortfalls from the existing 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.

Notes to the financial statements

Note 10. Provision for expected credit losses ('ECL') (continued)

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

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

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance loss 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.	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.	May be moved to lower grades based on internally collected data on customer behaviour – e.g. overdue payments or notification of financial hardship.	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 10. Provision for expected credit losses ('ECL') (continued)

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

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if:
- For all counterparties: Payments are overdue for 30 days or greater or the Bank is notified of financial difficulty of the borrower.
- Additionally for wholesale counterparties: if the external credit rating of a rated counterparty has deteriorated since initial recognition.

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

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

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

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

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

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

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

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

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

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

Notes to the financial statements

Note 10. Provision for expected credit losses ('ECL') (continued)

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 demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

The Bank treats all applications for hardship 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.

PD
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.

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

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

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

Notes to the financial statements

Note 10. Provision for expected credit losses ('ECL') (continued)

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.

Forward looking assumptions
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, inflation and unemployment rates. Other drivers that were tested but discovered to not have strong correlation with defaults for the Bank include interest rates and housing price movements.

Forward looking assumptions 2023
For the year ended 30 June 2023, the Bank formulated three economic scenarios:

Scenario 1 (Base Case):	Where the Australian economy performs somewhat worse than forecasted by RBA.
Scenario 2 (Upside):	Where the Australian economy tracks broadly along the lines that the RBA has forecasted in terms of unemployment, growth and inflation.
Scenario 3 (Downside):	Where the Australian economy performs significantly worse than forecasted by RBA.

The Bank determined the probability of each scenario occurring was 50%, 30% and 20% 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 2023, holding all other assumptions constant

	ECL sensitivity analysis $'000
ECL on loans (weighted 50% base, 30% upside case, 20% downside)	975
Base scenario (weighted 100%)	917
Upside case scenario (weighted 100%)	897
Downside scenario (weighted 100%)	1,254

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 10. Provision for expected credit losses ('ECL') (continued)

		2023	2024	2025	2026	2027
Unemployment rates	Scenario 1:	3.6%	5.0%	5.0%	5.0%	5.0%
	Scenario 2:	3.5%	4.2%	4.5%	4.5%	4.5%
	Scenario 3:	5.6%	7.0%	7.0%	7.0%	7.0%
GDP growth	Scenario 1:	1.6%	1.0%	2.0%	2.0%	2.0%
	Scenario 2:	1.7%	1.4%	2.1%	2.1%	2.1%
	Scenario 3:	1.1%	-1.2%	0.3%	0.3%	0.3%
CPI	Scenario 1:	6.3%	3.5%	2.8%	2.8%	2.8%
	Scenario 2:	6.2%	3.4%	2.5%	2.5%	2.5%
	Scenario 3:	6.6%	3.8%	3.6%	3.6%	3.6%

Forward looking assumptions 2022
For the year ended 30 June 2022, the Bank formulated three economic scenarios:

Scenario 1 (Base Case): Where the Australian economy performs somewhat worse than forecasted by RBA

Scenario 2 (Upside): Where the Australian economy tracks broadly along the lines that the RBA has forecasted in terms of unemployment, growth and inflation.

Scenario 3 (Downside): Where the Australian economy performs significantly worse than forecasted by RBA.

The Bank determined the probability of each scenario occurring was 25%, 25% and 50% 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 2022, holding all other assumptions constant.

	ECL sensitivity analysis $'000
ECL on loans (weighted 25% upside, 25% base case, 50% downside)	937
Base case scenario (weighted 100%)	872
Upside scenario (weighted 100%)	810
Downside scenario (weighted 100%)	1,033

		2022	2023	2024	2025	2026
Unemployment rates	Scenario 1:	3.3%	4.0%	4.0%	4.0%	4.0%
	Scenario 2:	3.7%	3.6%	4.0%	4.0%	4.0%
	Scenario 3:	5.5%	5.6%	5.9%	6.0%	6.0%
GDP growth	Scenario 1:	4.1%	2.0%	1.2%	1.2%	1.2%
	Scenario 2:	4.2%	2.0%	1.9%	2.0%	2.0%
	Scenario 3:	2.4%	1.0%	0.8%	0.8%	0.8%
CPI	Scenario 1:	6.6%	3.0%	2.4%	2.4%	2.4%
	Scenario 2:	5.9%	3.1%	2.9%	2.8%	2.8%
	Scenario 3:	5.3%	4.5%	4.3%	4.2%	4.1%

Notes to the financial statements

Note 11. Other loans

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Marketplace lending	2,627	7,505	2,627	7,505
Less: provision for ECL (note 10)	(126)	(147)	(126)	(147)
	2,501	7,358	2,501	7,358

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 12. Property, plant, and equipment

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Leasehold improvements - at cost	3,126	3,431	3,126	3,431
Less: Accumulated depreciation	(2,756)	(3,195)	(2,756)	(3,195)
	370	236	370	236
Plant and equipment - at cost	2,544	5,889	2,544	5,889
Less: Accumulated depreciation	(1,987)	(5,294)	(1,987)	(5,294)
	557	595	557	595
	927	831	927	831

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 2021	324	428	752
Additions	-	388	388
Depreciation expense	(88)	(221)	(309)
Balance at 30 June 2022	236	595	831
Additions	292	232	524
Depreciation expense	(158)	(270)	(428)
Balance at 30 June 2023	370	557	927

Accounting policy for 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.

Notes to the financial statements

Note 12. Property, plant and equipment (continued)

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.

Note 13. Right-of-use assets

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Land and buildings - right-of-use	6,364	2,928	6,364	2,928
Less: Accumulated depreciation	-	(2,196)	-	(2,196)
	6,364	732	6,364	732

The Bank has entered into a new lease contract on 30 June 2023 for its premises. The lease agreement is for an initial period of 5 years, expiring on 30 June 2028 with an option to extend for another 5 years. The lease liabilities have been recorded assuming the Bank will not extend beyond the initial 5 year period. On expiry, the terms of a new lease will be negotiated.

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 2021	1,464
Depreciation expense	(732)
Balance at 30 June 2022	732
Additions	6,364
Depreciation expense	(732)
Balance at 30 June 2023	6,364

Refer to note 21 for further information on financial risk management objectives and policies.

The lease liabilities amounting to $6,147,618 (2002: $1,079,214) has an incremental borrowing rate of 5.58% per annum, with the maturity profile disclosed in note 21.

Accounting policy for 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.

Notes to the financial statements

Note 13. Right-of-use assets (continued)

Accounting policy for 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.

Note 14. Intangible assets

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Software - at cost	2,147	3,534	2,147	3,534
Less: Accumulated amortisation	(2,097)	(3,457)	(2,097)	(3,457)
	50	77	50	77

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 2021	105
Amortisation expense	(28)
Balance at 30 June 2022	77
Additions	-
Amortisation expense	(27)
Balance at 30 June 2023	50

Accounting policy for 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 5 years.

Accounting policy for 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:

Notes to the financial statements

Note 14. Intangible assets (continued)

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

In applying the Bank's accounting policy, management 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.

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 2023 and 2022 in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Note 15. Deferred tax assets

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Net Deferred tax asset-comprises temporary differences attributable to:				
Amounts recognised in profit or loss or other comprehensive income:				
Accrued expenses not deductible until incurred	102	71	102	71
Provisions for impairment on loans	292	234	292	234
Provisions for employee benefits	548	426	548	426
Depreciation on fixed assets and intangible assets	(55)	38	(55)	38
Arising from losses on cash flow hedges	(367)	(223)	(367)	(223)
Right of use assets	(1,909)	(183)	(1,909)	(183)
Lease liability	1,844	270	1,844	270
Provision for lease	69	-	69	-
Net Deferred tax asset	524	633	524	633
Movements:				
Opening balance	633	1,406	633	1,406
Charged to profit or loss (note 5)	35	(457)	35	(457)
Charged to equity (note 19)	(144)	(316)	(144)	(316)
Closing balance	524	633	524	633

Notes to the financial statements

Note 15. Deferred tax assets (continued)

Refer to note 5 for deferred tax accounting policy.

Note 16. Borrowings from financial and other institutions

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Borrowings - Term Funding Facilities from the RBA	24,234	59,638	24,234	59,638
Borrowings - Term Subordinated Debt	15,000	15,000	15,000	15,000
	39,234	74,638	39,234	74,638

As at 30 June 2023, 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 with fixed interest rates of 0.10% on $24,234,000 (2022: 0.25% on $35,403,000 and 0.10% on $24,234,000) and residual maturity dates ranging from 4 months to 7 months (2022: 9 months to 19 months) after 30 June 2023. There were no defaults on interest payments on this liability in the current year. The borrowings are secured by a total of $65,900,000 (2022: $135,000,000) notes issued by Artemis Trust (note 25).

The Term Subordinated Debt has a fixed term of 10 years maturing on 29 October 2030, with an optional redemption date after 5 years. Interest rate as at 30 June 2023 is 7.43% (2022: 3.82%). There were no defaults on interest payments on this liability in the current year. The borrowing is unsecured.

Accounting policy for 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)

Note 17. Deposits

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Member deposits - at call	773,719	859,345	773,719	859,345
Member deposits - term	585,955	342,734	585,955	342,734
Deposits from other financial institutions	223,964	216,118	223,964	216,118
Members withdrawable shares	69	108	69	108
	1,583,707	1,418,305	1,583,707	1,418,305

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

Maturity profile of the Member deposits - term and Deposits from other financial institutions greater than 1 year are disclosed in note 21.

From December 2021 new member shares are fully paid at $0.01 each (prior to that $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.

Accounting policy for 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.

Notes to the financial statements

Note 18. Creditors, accruals and other liabilities

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Creditors and accruals	1,890	1,964	1,890	1,964
Interest payable on deposits	8,555	1,744	8,555	1,744
Derivative liability	-	46	-	46
Sundry creditors	1,762	2,968	1,762	2,968
	12,207	6,722	12,207	6,722

Refer to note 21 for further information on financial risk management objectives and policies.

Accounting policy for trade and other payables
Trade and other payables represent liabilities for goods and services provided to the Bank prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Refer to note 8 for accounting policy on derivatives

Note 19. Reserves

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
General reserve for credit losses	-	1,170	-	1,170
Cash flow hedge reserve	844	708	844	708
	844	1,878	844	1,878

General reserve for credit losses
The general reserve for credit losses was established in accordance with previous regulatory guidance and, at the time, represented the Bank's prudent estimate of credit losses expected, but not certain to arise, over the life of all individual loan facilities. During the year, the general reserve for credit losses was reduced to nil, by way of a transfer to retained earnings, in response to revised regulatory guidance that it is no longer required.

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.

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 2021	1,170	(239)	931
Gain on cash flow hedges taken on equity terms	-	1,263	1,263
Deferred tax	-	(316)	(316)
Balance at 30 June 2022	1,170	708	1,878
Gain on cash flow hedges taken on equity terms	-	280	280
Deferred tax	-	(144)	(144)
Transfer to retained earnings from general reserve for credit losses	(1,170)	-	(1,170)
Balance at 30 June 2023	-	844	844

Notes to the financial statements

Note 20. Dividends

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

Note 21. 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 regularly reviews 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.

Governance & Remuneration Committee
The Governance & Remuneration Committee's role is to assist the Board in the development and execution of Board Governance and development of policies and procedures. In addition the Committee assists the Board in discharging its responsibilities relating to the implementation of the Bank's Remuneration Policy and Frameworks, while monitoring reports on overall organisational culture.

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.

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

The Chief Risk Officer has the responsibility for ensuring Board and management's approved credit risk policies are monitored and reported in line with approved risk appetites. 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.

Any arrears are reported and monitored and there are dedicated collection resources to assist with recovery of arrears. Provisions are reported and monitored regularly.

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.

Notes to the financial statements

Note 21. Financial risk management objectives and policies (continued)

Key risk management policies encompassed in the overall risk management framework include:
- Risk management framework and strategy;
- Risk appetite statement;
- Large exposures risk management policy;
- Credit risk management policy;
- Liquidity risk management framework;
- Liquidity contingency plan;
- Interest rate risk management policy;
- Internal capital adequacy assessment process;
- Capital contingency plan
- Business continuity management policy;
- Information security policy and Cyber Security Strategy;
- Fraud policy;
- Governance risk management policy; and
- Compliance framework and 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, with minutes of their meetings reported 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.

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.

Notes to the financial statements

Note 21. Financial risk management objectives and policies (continued)

The VaR on the banking book was as follows:

	2023	2022
VaR as a percentage of regulatory capital	0.41%	0.78%

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.

As at the reporting date, the Bank had the following interest rate swap contracts outstanding:

	30 June 2023		30 June 2022	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Interest rate swaps (notional principal amount)	2.66%	55,000	2.32%	40,000

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	2023		
Loan type	Carrying Value $'000	Commitments $'000	Maximum exposure $'000
Mortgages	1,397,484	135,214	1,532,698
Personal	39,090	3,168	42,258
Credit cards and overdrafts	10,194	14,172	24,366
Total loans	1,446,768	152,554	1,599,322

Consolidated and parent	2022		
Loan type	Carrying Value $'000	Commitments $'000	Maximum exposure $'000
Mortgages	1,268,194	131,439	1,399,633
Personal	46,300	3,932	50,232
Credit cards and overdrafts	11,585	18,314	29,899
Total loans	1,326,079	153,685	1,479,764

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

All loans and facilities are within Australia. The geographic distribution is analysed into significant areas within Australia.

The method of managing credit risk is by way of adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter. 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).

Notes to the financial statements

Note 21. Financial risk management objectives and policies (continued)

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.

Regular reporting are in place to 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 10.

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 9 describes the nature and extent of the security held against the loans held as at the reporting date.

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 additional 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 investment counter parties are closely monitored.

Loans over 80% LVR require Government guarantees, Lenders Mortgage Insurance or higher levels of delegated authority to be approved to protect the bank from adverse movements in the housing market values and defaults.

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 seen a positive increase over the last financial year in volumes of loan applications and loan fundings. Home loan applications and funding volumes continue to be strong with particular attribute to the eligibility criteria expansion 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.

Notes to the financial statements

Note 21. Financial risk management objectives and policies (continued)

According to the Liquidity Risk Management Framework, the Bank's 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	2023		
	Carrying Value	Past due value	Provision
Investments with:	$'000	$'000	$'000
Government bonds - rated Aaa	20,964	-	4
Cuscal - rated A-1	15,140	-	5
Banks - rated Aa2 to Baa3	204,681	-	58
Total	240,785	-	67

Consolidated and parent	2022		
	Carrying Value	Past due value	Provision
Investments with:	$'000	$'000	$'000
Government bonds - rated Aaa	33,008	-	6
Cuscal - rated A-1	14,790	-	4
Banks - rated Aa3 to Baa3	182,589	-	53
Total	230,387	-	63

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 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 notes 24 and 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.

Notes to the financial statements

Note 21. Financial risk management objectives and policies (continued)

Consolidated and parent

Liabilities	Book Value $'000	On Demand $'000	Up to 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
	2023							
Borrowings from financial and other institutions	39,234	-	281	25,080	4,458	17,605	-	47,424
Deposits from other financial institutions	223,964	41,216	165,892	17,035	1,583	-	-	225,726
Deposits and shares from members - at call	773,788	773,719	-	-	-	-	69	773,788
Deposits from members - term	585,955	75,632	172,171	300,293	48,532	-	-	596,628
Interest payable on deposits	8,555	8,555	-	-	-	-	-	8,555
Derivative liability	-	-	-	-	-	-	-	-
Lease liabilities	6,148	-	315	946	5,785	-	-	7,046
Total Financial Liabilities	1,637,644	899,122	338,659	343,354	60,358	17,605	69	1,659,167

Consolidated and parent

Liabilities	Book Value $'000	On Demand $'000	Up to 3 months $'000	3 - 12 months $'000	1 - 5 years $'000	After 5 years $'000	No Maturity $'000	Total $'000
	2022							
Borrowings from financial and other institutions	74,638	-	-	35,592	24,083	15,000	-	74,675
Deposits from other financial institutions	216,118	55,875	139,625	21,165	-	-	-	216,665
Deposits and shares from members - at call	859,453	859,345	-	-	-	-	108	859,453
Deposits from members - term	342,734	36,841	69,722	176,990	61,611	-	-	345,164
Interest payable on deposits	1,744	1,744	-	-	-	-	-	1,744
Derivative liability	46	-	-	46	-	-	-	46
Lease liabilities	1,079	-	273	818	-	-	-	1,091
Total Financial Liabilities	1,495,812	953,805	209,620	234,611	85,694	15,000	108	1,498,838

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 and the use of an independent Internal Audit.

The Bank continues to operate without any major disruption.

Notes to the financial statements

Note 21. 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:

	30 June 2023		30 June 2022	
Consolidated	**Carrying amount $'000**	**Fair value $'000**	**Carrying amount $'000**	**Fair value $'000**
Financial assets				
Cash and cash equivalents*	41,297	41,297	30,823	30,823
Other financial assets	240,806	242,040	230,409	236,198
Receivables*	8,557	8,557	4,500	4,500
Derivative assets	1,211	1,211	980	977
Loans to members	1,446,750	1,434,213	1,325,811	1,314,203
Other loans*	2,501	2,501	7,358	7,388
	1,741,122	1,729,819	1,599,881	1,594,089
Financial liabilities				
Borrowings*	39,234	39,234	74,638	74,638
Deposits from other financial institutions	223,964	223,983	216,118	216,665
Deposits from members – at call*	773,719	773,719	859,345	859,345
Deposits from members – term	585,955	584,543	342,734	345,164
Interest payable on deposits*	8,555	8,555	1,744	1,744
Derivative liability	-	-	46	46
Lease liabilities	6,148	6,148	1,079	1,079
	1,637,575	1,636,182	1,495,704	1,498,681

* 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 shorter term in nature and/or reprice frequently.

Notes to the financial statements

Note 21. 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 (if any) 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 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. APRA sets the minimum CET1 ratio, Tier 1 capital ratio, and Tier 2 capital ratio under APRA's Basel capital adequacy Prudential Standards

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 sets a capital conservation buffer of up to 2.5% of an ADI's total risk-weighted assets, as well as a counter cyclical buffer for all ADIs. 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 2023 and 30 June 2022, the Bank's capital ratio complied with its required Prudential Capital Ratio.

Note 22. 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 - 30 June 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Receivables and other assets - derivative asset (note 8)	-	1,211	-	1,211
Other financial assets (note 7)	-	-	22	22
Total assets	-	1,211	22	1,233
Liabilities				
Trade and other payables - derivative liability (note 18)	-	-	-	-
Total liabilities	-	-	-	-

Consolidated - 30 June 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Receivables and other assets - derivative asset (note 8)	-	980	-	980
Other financial assets (note 7)	-	-	22	22
Total assets	-	980	22	1,002
Liabilities				
Trade and other payables - derivative liability (note 18)	-	46	-	46
Total liabilities	-	46	-	46

There were no transfers between levels during the financial year.

Notes to the financial statements

Note 22. Fair value measurement (continued)

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

Level 3 assets and liabilities
There was no movement in Level 3 fair value hierarchy during the year.

Accounting policy for 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.

Note 23. Commitments

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Outstanding loan commitments				
The loans approved but not funded	21,788	28,063	21,788	28,063
Loan redraw facilities				
The loan redraw facilities available	116,594	107,308	116,594	107,308
Undrawn loan facilities				
Loan facilities available to members for overdrafts and line of credit loans are as follows:				
Total value of facilities approved	25,359	30,841	25,359	30,841
Less: Amount advanced	(11,187)	(12,527)	(11,187)	(12,527)
Net undrawn value	14,172	18,314	14,172	18,314
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.				
Total financial commitments	152,554	153,685	152,554	153,685

	Consolidated		Parent	
	30 June 2023 $'000	30 June 2022 $'000	30 June 2023 $'000	30 June 2022 $'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	1,300	2,600	1,300	2,600
	2,600	3,900	2,600	3,900

Notes to the financial statements

Note 24. Standby borrowing and other facilities

Australian Military Bank has a number of standby facilities.

Consolidated and parent - 2023	Facility limited $'000	Utilised $'000	Net available $'000
Overdraft facility - Cuscal	3,000	-	3,000
Other facility – Bendigo and Adelaide Bank	50,000	2,961	47,039
Total standby facilities	53,000	2,961	50,039

Consolidated and parent - 2022	Facility limit $'000	Utilised $'000	Net available $'000
Overdraft facility - Cuscal	3,000	-	3,000
Other facility – Bendigo and Adelaide Bank	50,000	4,483	45,517
Total standby facilities	53,000	4,483	48,517

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.

Note 25. 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		**Parent**	
	30 June 2023 $'000	**30 June 2022 $'000**	**30 June 2023 $'000**	**30 June 2022 $'000**
Carrying amount of transferred assets		-	331,800	357,194
Carrying amount of associated liabilities		-	(331,800)	(357,194)
Net position	-	-	-	-

The parent holds all the notes issued by Artemis Trust.

For those liabilities that have recourse only to the transferred assets				
Fair value of transferred assets		-	331,800	357,194
Fair value of associated liabilities		-	(331,800)	(357,194)
Net position	-	-	-	-

Accounting policy for 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.

Notes to the financial statements

Note 26. 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		Parent	
	30 June 2023 $	30 June 2022 $	30 June 2023 $	30 June 2022 $
Short-term employee benefits	1,691,147	1,465,029	1,691,147	1,465,029
Post-employment benefits	128,862	106,567	128,862	106,567
Long-term benefits	14,582	14,693	14,582	14,693
	1,834,591	1,586,289	1,834,591	1,586,289

Included within compensation at 30 June 2023 is $337,613 (2022: $305,870) paid to member-elected directors.

In the above table, remuneration shown as short term benefits means (where applicable) salaries, director fees, paid annual leave, paid sick leave, bonuses and value of fringe benefits received, but excludes out of pocket expense reimbursements. Post-employment benefits include paid superannuation. Long-term benefits include long service leave provision movements.

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.

		2023			2022	
	Mortgage secured $	Other Term Loans $	Credit cards $	Mortgage secured $	Other Term Loans $	Credit cards $
Interest and other revenue earned	-	-	-	9,584	914	368

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

	2023 $	2022 $
Total value term and savings deposits from KMP	191,618	663,233
Total interest paid on deposits to KMP	14	5,614

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.

Notes to the financial statements

Note 26. Key management personnel disclosures (continued)

Accounting policy for 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. 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.

Note 27. 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	
	2023	2022	2023	2022
	$	$	$	$
Audit services - KPMG				
Audit of the financial statements	120,438	119,300	120,438	119,300
Assurance services - KPMG				
Regulatory assurance services	87,155	76,200	87,155	76,200
Other assurance services	14,137	-	14,137	-
Other services - KPMG				
Taxation	15,000	15,000	15,000	15,000
ESG reporting advisory	72,300	20,000	72,300	20,000
	87,300	35,000	87,300	35,000
	309,030	230,500	309,030	230,500

Note 28. Changes in liabilities arising from financing activities

Consolidated	Borrowings from financial institutions $'000	Derivatives $'000	Lease liabilities $'000	Total $'000
Balance at 1 July 2021	74,638	342	2,081	77,061
Net cash used in financing activities	-	(13)	(1,002)	(1,015)
Others	-	(283)	-	(283)
Balance at 30 June 2022	74,638	46	1,079	75,763
Net cash used in financing activities	(35,404)	(46)	(1,295)	(36,745)
Others	-	-	6,364	6,364
Balance at 30 June 2023	39,234	-	6,148	45,382

Note 29. Contingent liabilities

There are no contingent liabilities as at 30 June 2023 and 30 June 2022.

Note 30. Events after the reporting period

No matter or circumstance has arisen since 30 June 2023 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 2023 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

Alan Bardwell
Chair

4 October 2023
Sydney

Sean Fitzgerald
Deputy Chair

4 October 2023
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 the ***Bank's*** financial position as at 30 June 2023 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 comprises:

- Statements of financial position as at 30 June 2023;
- Statements of profit or loss and other comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- 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 the 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 these requirements.

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 a Financial Reports that give a true and fair view and is free from material misstatement, whether due to fraud or error; and
- 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 the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our 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 http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.This description forms part of our Auditor's Report.

KPMG

KPMG

Quang Dang

Quang Dang

Partner

Sydney

4 October 2023

Corporate directory

Directors

- Alan Bardwell
  Chair (from 1 July 2023 and Deputy Chair until 30 June 2023)
- Sean Fitzgerald
  Deputy Chair (from 1 July 2023)
- John Brooks
  (Chair until 30 June 2023)
- Michael Crane DSC & Bar AM
- Timothy Pike
- Francesca Rush
- Rebecca Tolhurst

Chief Executive Officer

- Darlene Mattiske-Wood

Company Secretary

- Nicholas Parkin

Website

www.australianmilitarybank.com.au

Registered Office

Level 1
1 Bligh 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

1

Royal Australian Navy sailors from HMAS Brisbane on the bridge wing scan the horizon during search and rescue operations in the vicinity of Lindeman Island, Queensland, 29 July 2023. A multi-national and multi-agency search and rescue effort is underway following an Australian Army MRH-90 Taipan helicopter impacting waters near Lindeman Island on the night of 28 July 2023 during Exercise Talisman Sabre 23.

2

HMAS Anzac conducts a light line transfer with BRP Conrado Yap during Exercise LUMBAS as part of a regional presence deployment.

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

Australian Military Bank