Australian Military Bank

2016
Annual Report

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Directors’ Report

Chairman's Summary

It is my pleasure to provide this introduction to Australian Military Bank's first Annual Report.

2015 / 16 was a very significant year for ADCU, the longest serving financial services provider to Defence, which converted to mutual bank status in December 2015. The member vote to become a mutual bank received overwhelming support with 92.5% voting in favour. Our conversion to mutual bank status was driven, amongst other things, by our desire to remain readily recognisable and relevant to younger people in the Defence community while simultaneously improving our products and services to all members. We view this as necessary to the ongoing success of the organisation.

The Board is very pleased with how the conversion to Australian Military Bank was executed and has received overwhelmingly positive feedback from the Defence community. The aim was to achieve more than just a name change – we also needed to continue to deliver tangible benefits to our membership. While the physical changeover of branding was done expeditiously and with minimal impact for members, we also took the opportunity to introduce the following product and service improvements:

- Introduction of the Military Rewards Account, a new everyday transaction account that rewards both our members and key Defence charities;
- Re-engineered our lending process to ensure consistently fast decision making on member loan applications;
- Launched an updated internet banking service (a.k.a Online Banking) with increased ease of navigation and functionality; and,
- Provided ongoing updates to our very popular mobile banking app to improve functionality.

The Military Rewards Account has proven to be extremely popular with both existing and new members. We have opened thousands of accounts to date and our members are receiving significant monthly rebates on their Paywave purchases. Importantly, we are generating recurring funding for our Defence charity partners with over $17,000 donated in the first six months of operation. We take this opportunity to thank our members for selecting this account and in turn supporting RSL Defence Care, Legacy, Mates4Mates and Soldier On.

The updated version of our internet banking service was another important instalment in our digital strategy. Part of our brand credo is to be modern and easy to do business with, recognising that members want to access our services when it suits them. The provision of digital services like internet banking, a functionality rich mobile app and online applications all help to deliver a 24/7 banking service.

Having said this, we recognise there are important times when our members want to meet face to face or talk over the phone. We continue to maintain an investment in mobile bankers, branches, rediATM's on base and extended hours for our Member Contact Centre.

Financial Strength

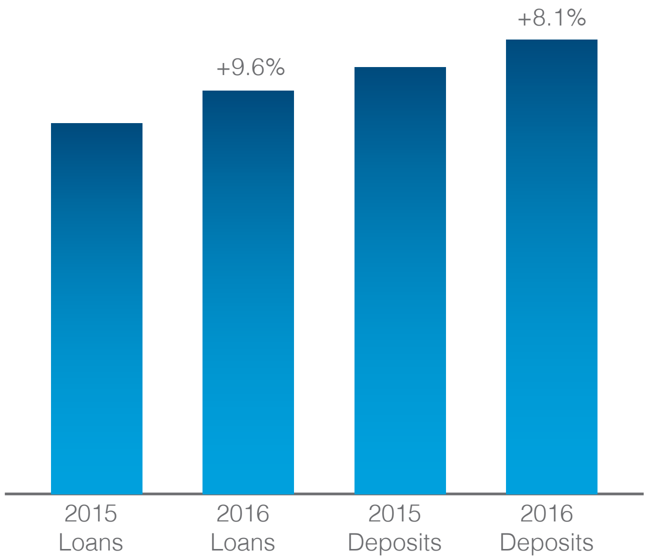
We were able to manage the challenges that an ultra low interest rate environment brings to improve our comprehensive income after tax to $4.7M. This result, including bank conversion costs, is up 17.5% from the previous year. The achievement of this surplus allows your bank to reinvest in services and underwrite future loan growth via increased capital reserves.

Our credit quality continues to improve with loan delinquency finishing the year at 0.09%. We take our commitment to responsible lending seriously. We do this through well established processes to ensure the suitability of our offering and that loan serviceability is confirmed at the time of borrowing so as to not create hardship for our members. In light of this improved credit result, I take this opportunity to thank our borrowing members for honouring their loan repayment commitments.

Australian Military Bank is highly liquid and has varied sources of funding. We remain very well placed to continue to meet the borrowing requirements of our members going forward. Of course we do this through the support of our depositing members whose investments are greatly appreciated. We like to think our depositors are rewarded with good service, returns and the satisfaction of knowing their funds are helping others in the Defence community achieve their financial goals.

Growth

Australian Military Bank has continued its track record of above banking system growth. Last year total assets grew to $1.132 billion (up 6%). Breaking this down, total loans grew by over 9% while deposits grew by over 8%.



Importantly, our membership continues to grow. We are particularly pleased to see new memberships consistently outstrip resigned memberships. Since mutual bank conversion there has been a marked reduction in resigned memberships and we take this as confirmation of our improved products and services.

Recent Developments

Australian Military Bank has looked overseas to understand the likely impact of a prolonged ultra low interest rate environment. In light of declining margins, we continue to focus on our productivity and internal cost controls. The fact remains, however, there is a real cost to providing credit regardless of official Government monetary policy. The outgoing RBA Governor, Glenn Stevens, has recently confirmed there are limits to what monetary policy alone can be expected to achieve. We, therefore, look forward to a more stable and harmonious environment as we believe this will impact positively on confidence levels, the real economy and ultimately our members.

Acknowledgement and Thanks

Our progress and growth over the last year is attributable to many elements in the Defence community.

Firstly, we thank Defence for being our host and supporting us through our mutual bank conversion. We take our obligations to service the Defence community seriously and remain dedicated to this purpose. Whether it is meeting the financial needs of service men, women and their families; or supporting Defence related causes such as the Long Ride, Australian Defence Force Australian Rules or White Ribbon Day, we see this as core to our purpose.

We also thank the ex-service organisations and their members for their ongoing support of Australian Military Bank. They play a critical role in the welfare of current and ex-serving personnel. We were particularly pleased in 2016 to build an ongoing charitable funding relationship with RSL Defence Care, Legacy, Mates4Mates and Soldier On.

A special acknowledgement goes out to the RSL movement which commemorated 100 years of service. We value our relationship with the RSL movement and congratulate them on a century of service. We also noted the recent retirement of RSL National President, RADM Ken Doolan AO, and the election of Rod White AM RFD and wish both well.

In this very significant year, I would like to acknowledge the Australian Military Bank team, be they directors or staff, for their hard work and dedication across the year. The team was able to simultaneously manage the conversion to bank status while maintaining business momentum. My sincere thanks and appreciation goes out to my fellow directors and staff.

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

PS: In a change to tradition, we are holding our upcoming Annual General Meeting in Canberra on 26 October. I look forward to meeting as many members as possible.

RADM Clint Thomas AM, CSC RANR
Chairman

28 September 2016

Your Directors present their report on Australian Military Bank Limited for the financial year ended 30 June 2016. Australian Military Bank Limited is a company registered under the *Corporations Act 2001*.

2016 Office Bearers

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

Rear Admiral Clinton William Thomas AM, CSC, RANR

Qualifications

Graduate RAN College and RAN Staff College

Member of the Australasian Mutuals Institute

Member of the Risk Management Institute of Australasia

Associate Member of the Australian Institute of Project Management

Graduate Member of the Australian Institute of Company Directors

Fellow of the Chartered Institute of Logistics and Transport Australia

Diploma Applied Science (UNSW)

Diploma Company Directors

Diploma of Government (Contract Management)

Advanced Diploma of Government (Strategic Procurement)

Advanced Diploma of Project Management

Graduate Diploma of Resource Management

Master of Management (Operations/Logistics)(MGSM)

Experience and Responsibilities

Mutual Bank Director for 16 years

40 years in the Royal Australian Navy and Defence

Former Commander Joint Logistics Command (2013-15)

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

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

Past Chair of the Navy Canteens Board (3 years)

Member of the Australian Military Bank Renewal Committee

Member of the Australian Military Bank Remuneration Committee

Chair of the Australian Military Bank Governance Committee

Chair of the Australian Military Bank Board

John Robert Brooks

Qualifications

Bachelor of Arts

Graduate of the Royal Air Force Staff College

Fellow of the Australian Defence College

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Strategic Studies

Experience and Responsibilities

Mutual Bank Director for 16 years

28 years in the RAAF Logistics Branch

Owner of Brooks Newsagency, Orange, NSW

Member of the Australian Military Bank Risk Committee

Jodie Marie Hampshire, CFA

Qualifications

Bachelor of Commerce

CFA Charterholder

Graduate Australian Institute of Company Directors

Experience and Responsibilities

13 years in Investment Management and Investment Consulting. Experience across three countries in strategy, business financials, organisational design, HR, legal, compliance and business management.

5 years as Founder and Director of own business

Head of Institutional Australia for Russell Investments with responsibility for a team of professionals who deliver investment and superannuation services to clients with total assets of over $20 billion.

Mutual Bank Director for 1 year

Chair of Australian Military Bank Risk Committee

Bruce Andrew Robert Scott, CSC

Qualifications

Graduate Member of the Australian Institute of Company Directors

Graduate of Command and Staff College

Member of the Australasian Mutuals Institute

Experience and Responsibilities:

Mutual Bank Director for 3 years

40 years service and experience in the Australian Army

Member of the Australian Military Bank Risk Committee

Chair of the Australian Military Bank Remuneration Committee

Director Shooting Australia

Chair of Shooting Australia Finance and Audit Committee

Brigadier Jane Maree Spalding, AM

Qualifications

Bachelor of Social Science (Human Resource Development)

Master of Arts (Military Studies)

Master of Defence Studies

Master of Arts (Strategic Studies)

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

Graduate of the Australian Army Command and Staff College

Graduate of the Centre for Defence and Strategic Studies

Graduateship of the City and Guilds of London Institute

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Management

Graduate Member of the Australian Institute of Company Directors

Experience and Responsibilities

Mutual Bank Director for 9 years

33 years in the Australian Regular Army

Currently Chief of Staff Army Headquarters

Head of Corps Royal Australian Army Ordnance Corps

Chair of the Australian Military Bank Audit Committee

Previously a member of the TAFE Riverina Institute Advisory Council

Warren Raymond Thomas

Qualifications

Graduate Diploma in Company Directorship

Member of the Australasian Mutuals Institute

Graduate Member of the Australian Institute of Company Directors

Member of the Club Directors Institute of NSW

Experience and Responsibilities

37 years in Department of Defence, including Army service in Vietnam

20 years experience in high level financial management in various Navy and Army Commands

President of Cronulla RSL sub-Branch (2008-present)

Director of Cronulla RSL Memorial Club (2005–present)

Mutual Bank Director for 20 years

Past Deputy Chairman of the Australian Military Bank Board

Chair of the Australian Military Bank Renewal Committee

Member of the Australian Military Bank Audit Committee

Graham Anthony Weber

Qualifications

Fellow Australian Society of Certified Practising Accountants (FCPA)

Bachelor of Commerce in Accounting

Member of the Australasian Mutuals Institute

Member Australian Institute of Company Directors

Experience and Responsibilities

6 years in Accounting Firms and Advisory Services

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

Currently Chief Finance Officer – Air Force

Mutual Bank Director for 8 years

Member of the Australian Military Bank Audit Committee

Deputy Chair of the Australian Military Bank Board

Member of the Australian Military Bank Executive Committee

John Ronald Ford

Qualifications

Graduate of the Australian Institute of Company Directors (GAICD)

Bachelor of Arts

Graduate Diploma of Business Studies

Fellow of the Institute of Financial Services

Fellow of the Australasian Mutuals Institute Advanced Diploma of Superannuation

Advanced Diploma of Superannuation

Member of the Association of Superannuation Funds of Australia Limited

Experience and Responsibilities

Chief Executive Officer – Australian Military Bank

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

Company Secretary

Grazier

Mark McCall

Qualifications

Member CPA Australia (CPA)

Bachelor of Economics – Monash University

Experience and Responsibilities

Over 25 years in the Banking and Finance Industry

Head of Finance at Australian Military Bank since November 2014

Company Secretary

Meetings Attended

	Board Meetings		AGM		Board Committee Meetings: Executive		Audit		Risk		Renewal		Remuneration	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Clinton Thomas	11	11	1	1	12	10	–	–	–	–	2	2	4	4
John Brooks	11	10	1	1	–	–	–	–	5	4	–	–	3	3
Jodie Hampshire	11	11	1	1	–	–	–	–	5	5	–	–	1	1
Bruce Scott	11	11	1	1	–	–	3	3	3	3	–	–	4	4
Jane Spalding	11	11	1	1	–	–	6	6	–	–	–	–	–	–
Warren Thomas	11	10	1	1	–	–	6	5	–	–	2	2	–	–
Graham Weber	11	11	1	1	12	11	3	3	2	2	–	–	–	–

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

A – No. of meetings attended

Director Benefits

Directors are required to make an annual declaration of any benefits or interests that may have occurred because of their association with Australian Military Bank. As at 30 June 2016, no Director has received or become entitled to receive any such benefit.

Indemnity of Directors and Officers

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

Principal Activities

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

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

Operating and Financial Review

Operating Results

The total comprehensive income of Australian Military Bank for the year after providing for income tax was $4,701,546 [2015 $4,000,766].

Review of Operations

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

Dividends

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

Significant Changes in State of Affairs

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

Events Occurring After Balance Date

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

Likely Developments and Results

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

- the operations of Australian Military Bank;
- the results of those operations; or
- the state of affairs of Australian Military Bank

in the financial years subsequent to this financial year.

Auditors' Independence

The auditors have provided the declaration of independence to the Board as prescribed by the *Corporations Act 2001* as set out on page 11.

Rounding

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

Board Resolution

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

RADM Clint Thomas AM, CSC RANR
Chairman

28 September 2016

Graham Anthony Weber
Deputy Chairman

28 September 2016

Director's Declaration

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

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

    (a) giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

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

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

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

Signed in accordance with a resolution of the directors:

RADM Clint Thomas AM, CSC RANR
Chairman

28 September 2016

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com

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

As lead auditor for the audit of Australian Military Bank Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

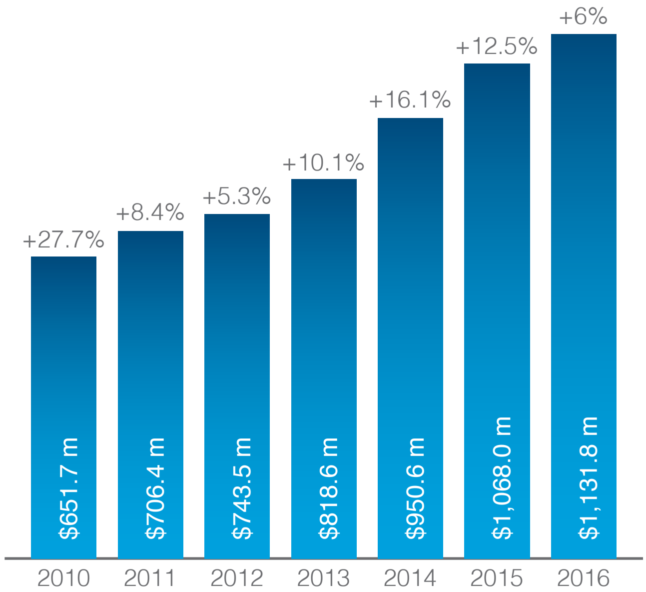
Ernst & Young

Ernst & Young

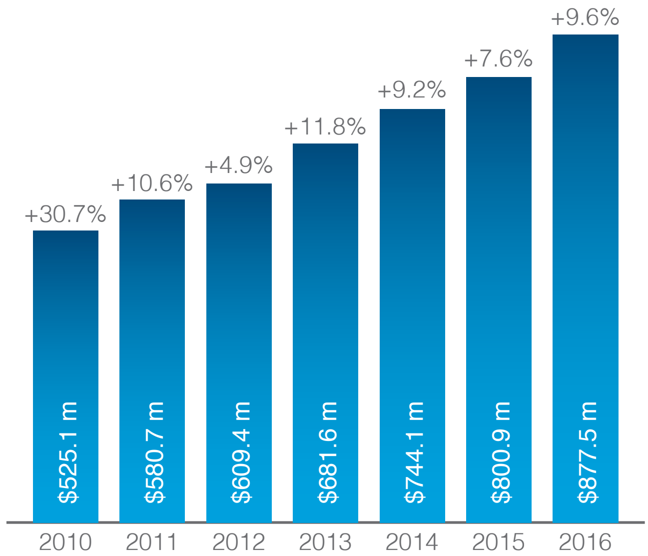
Richard Balfour
Partner

28 September 2016

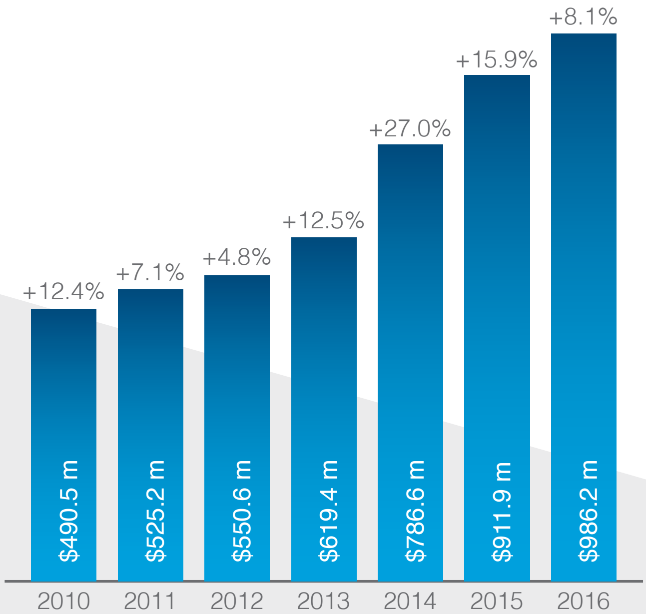
Key Performance Measures



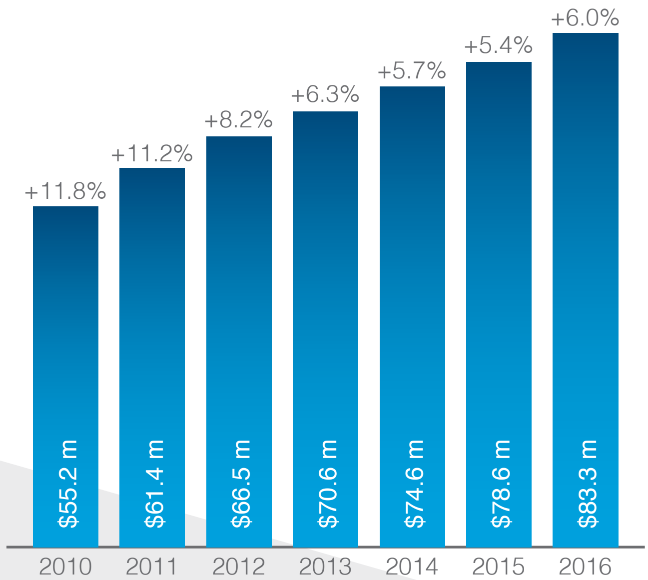
Balance Sheet Assets



Net Balance Sheet Loans



Deposits



Member's Equity

Introducing Australian Military Bank

Australian Military Bank: The new kid on the block

On 1 December 2015, we began operations as Australian Military Bank Limited, following the successful passing of 92.5% of member votes in favour of our name change. This record vote paved the way for us to become Australia's newest mutual bank.

Since our humble beginnings in 1959, we have been committed to remaining a member-owned organisation, dedicated to the Defence community. Despite the name change, we will remain true to our values with a focus on being a strong, secure financial institution well into the future.

Celebrations to mark our new beginning were held at each of our branches throughout Australia, as well as an official launch held on 4 December 2015 at the Australian War Memorial, Canberra.

Introducing.... Australian Military Bank.

ADCU's Board of Directors presents Australian Military Bank to members following the successful vote at the 2015 AGM. **(L-R)**: Bruce Scott, CSC, BRIG Jane Spalding, AM, Warren Thomas, Jodie Hampshire, Chairman RADM Clint Thomas AM, CSC, RANR, Graham Weber, John Brooks and CEO John Ford.

Military Rewards Account

In conjunction with our official launch as Australian Military Bank, we introduced our new flagship everyday transaction account, the Military Rewards Account.

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

The Chief of Defence, Air Chief Marshal Mark Binskin AC and representatives of each of the four Defence charities joined the Australian Military Bank Board and Executive Team for the official launch in Canberra. The occasion was marked by the unveiling of a commemorative plaque and the presentation of a cheque for $10,000, which was presented to the charities by our Chairman and CEO.

Robyn Collins (RSL Defence Care), David Gray (Legacy), Simon Sauer (Mates4Mates), and John Bale (Soldier On) at the official signing and launch of the Military Rewards Account.

Official launch of Australian Military Bank and Military Rewards Account held at the Australian War Memorial, Canberra on 4 December 2015. **(L-R)** John Ford (CEO, Australian Military Bank), Robyn Collins (RSL Defence Care), Simon Sauer (Mates4Mates), Chief of Defence, Air Chief Marshal Mark Binskin AC, David Gray (Legacy) and John Bale (Soldier On).

Social Media Milestone

We are thrilled to announce that we have reached over 21,000 Facebook likes.

Social media plays a big part in how we connect with our growing member base and the wider Defence community.

Over the years we have loved bringing members not only news and information relevant to the Defence community, but also about activities and events supported by Australian Military Bank.

For up to date news and information on events in our community, members can visit our Facebook page at www.facebook.com/AustralianMilitaryBank. Members can also connect with us on Instagram, Twitter and Google Plus.

Australian Military Bank would like to thank all its Facebook followers and supporters. Here's to another 20,000 friends joining the ever-growing Australian Military Bank Facebook family!

Australian Military Bank in the Community

Riverina Area Manager Kim (centre) with Leonie and Jo from our Riverina team at the Wagga DCO Day.

WA Regional Manager Clayton Scott ready to hit the road at the 2016 Long Ride Show 'N' Shine at HMAS Stirling.

Southern Area Manager Jo and Fran from our Southern team at the Simpson Barracks Family Open Day.

Australian Military Bank sponsors the Defence community and affiliated causes through various events and initiatives. We believe in giving back. Here is a snapshot of the year that was.

ADFAR Chairman BRIG Matthew Hall, CSC with Australian Military Bank CEO John Ford and ACT/South Coast/Southern Regional Manager Andrew Moebus on Day 3 of the 2016 ADFAR National Carnival.

(L-R) LEUT Dave Devlin, MAJ James Weaver and BRIG Matthew Hall, CSC and the ADF All Stars Team holding the trophy after winning the 2016 Anzac Challenge at Adelaide Oval. (Image courtesy of LEUT James Tew/ADFAR.)

Chief of Defence, Air Chief Marshal Mark Binskin AC with **(L-R)** Australian Military Bank Chairman RADM Clint Thomas AM, CSC, RANR, ACT/South Coast/Southern Regional Manager Andrew Moebus and ACT Regional Supervisor Marty Burgess at the ACT Long Ride team departure from Canberra Airport.

Independent Auditor’s Report

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com

Independent auditor's report to the members of Australian Military Bank Limited

Report on the financial report

We have audited the accompanying financial report of Australian Military Bank Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Building a better working world

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Australian Military Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Ernst & Young

Ernst & Young

Richard Balfour
Partner
Sydney

28 September 2016

Consolidated and Parent Entity Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Interest revenue	2(a)	48,603	50,770
Interest expense	2(c)	(24,172)	(27,024)
Net interest income		**24,431**	**23,746**
Fee commission and other income	2(b)	8,001	7,709
Net operating income before expenses		32,432	31,455
Operating Expenses			
Impairment losses on loans to members	2(d)	289	457
Fee and commission expenses		3,687	3,560
General administration expenses			
– Employees compensation and benefits		13,019	13,552
– Other administration		2,731	2,659
– Information technology		2,384	2,054
– Office occupancy		1,472	1,356
– Depreciation and amortisation	2(e)	629	477
Other operating expenses		1,702	1,587
Total operating expenses		25,912	25,702
Profit before income tax		**6,519**	**5,753**
Income tax expense	3	1,773	1,752
Profit after income tax		**4,746**	**4,001**
Other comprehensive income, net of income tax			
Items that will be reclassified subsequently to profit or loss			
Gains/(losses) on cash flow hedges taken to equity		(44)	–
Total other comprehensive income, net of income tax		(44)	–
Total comprehensive income for the period		**4,702**	**4,001**

Consolidated and Parent Entity Statement of Financial Position as at 30 June 2016

	Note	2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	4	43,733	34,424
Investments – held to maturity	5	200,180	222,357
Receivables	6	5,316	6,528
Prepayments		92	89
Loans to members	7(a)	877,534	800,853
Investments	9	2,209	907
Property, plant and equipment	10	1,053	1,162
Deferred tax assets	11	819	1,008
Intangible assets	12	861	730
Total assets		1,131,797	1,068,058
Liabilities			
Borrowings from financial and other institutions	13	44,787	57,660
Deposits	14	986,187	911,916
Derivatives	15	63	–
Creditor accruals and settlement accounts	16	10,741	11,419
Taxation liabilities	17	398	2,317
Provisions	18	1,282	1,109
Long term borrowings	19	5,000	5,000
Total liabilities		1,048,458	989,421
NET ASSETS		**83,339**	**78,637**
Members' equity			
General reserve for credit losses	20	1,506	1,506
Cash flow hedge reserve		(44)	–
Retained earnings		81,877	77,131
Total members' equity		**83,339**	**78,637**

Consolidated and Parent Entity Statement of Changes in Members' Equity for the year ended 30 June 2016

	Retained Earnings	Reserve for Credit Losses	Cash Flow Hedge Reserve	Total
	$'000	$'000	$'000	$'000
Balance as at 1 July 2014	**73,130**	**1,506**	**–**	**74,636**
Other comprehensive income	–	–	–	–
Profit after income tax	4,001	–	–	4,001
Total as at 30 June 2015	**77,131**	**1,506**	**–**	**78,637**
Balance as at 1 July 2015	77,131	1,506	–	78,637
Profit after income tax	4,746	–	–	4,746
Other comprehensive income	–	–	(44)	(44)
Total as at 30 June 2016	**81,877**	**1,506**	**(44)**	**83,339**

Consolidated and Parent Entity Statement of Cash Flows for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Interest received		48,215	50,408
Fees and commissions received		7,119	7,495
Other income		884	763
Interest paid		(24,039)	(27,854)
Suppliers and employees		(24,323)	(27,528)
Income taxes paid		(3,504)	36
Net cash flows from operating activities before changes in operating assets and liabilities	30(b)	**4,352**	**3,320**
Inflows (outflows) from other operating activities			
Increase in members' loans (net movement)		(76,682)	(56,786)
Increase in members' deposits and shares (net movement)		74,271	125,344
Net cash flows from operating activities		**1,941**	**71,878**
Cash flows from investing activities			
Increase in investments		(1,302)	–
Purchase of property, plant and equipment		(260)	(956)
Purchase of intangible assets		(455)	(263)
Other		62	–
Net cash flows from investing activities		**(1,955)**	**(1,219)**
Cash flows from financing activities			
Inflows (outflows)			
Decrease/(increase) in investments – held to maturity (net movement)		22,177	(76,830)
Increase in borrowings from financial and other institutions (net movement)		(12,873)	(15,062)
Increase in hedging derivatives (net movement)		19	–
Net cash flows from financing activities		**9,323**	**(91,892)**
Total net cash increase/(decrease)		9,309	(21,234)
Cash at beginning of year		34,424	55,658
Cash at end of year	30(a)	**43,733**	**34,424**

Notes to the Financial Statements for the year ended 30 June 2016

1. Statement of Accounting Policies

This financial report is prepared for Australian Military Bank Limited and its subsidiaries' (Australian Military Bank), for the year ended 30 June 2016.

The financial report was authorised for issue on 28th September 2016 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

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

a. Basis of Preparation

The consolidated and parent entity financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets except for available for sale investments and derivatives which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

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

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

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Military Bank and its controlled entities as at and for the period ended 30 June 2016. Controlled entities are all those entities over which the parent entity, the Australian Military Bank, has the power to govern the financial and operating policies so as to obtain benefits from their activities. Accounting standards deem the Artemis Securitisation Trust Repo Series No.1 and Athena Trust, which are both special purpose entities, to be controlled entities of the Australian Military Bank, as it holds all the participating residual income units in its ownership structure. Accordingly, the Australian Military Bank's financial statements include those of the parent Australian Military Bank entity and its Controlled Entities. As the Australian Military Bank controls the assets, liabilities, revenues and expenses of the Artemis Securitisation Trust Repo Series No.1 and Athena Trust, these have not been derecognised.

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

c. Classification and measurement of financial instruments

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

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

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Australian Military Bank's cash and cash equivalents, trade and most other receivables and loans to members fall into this category of financial instruments.

Investments – held to maturity (HTM)

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

HTM are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Investments - available for sale (AFS)

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

AFS are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within an AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest is calculated using the effective interest method and dividends are recognised in profit or loss within 'other income'.

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

d. Financial liabilities

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

Members' Deposits

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

Borrowings

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

e. Loans to members

(i) Basis of recognition and measurement

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

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

(ii) Interest earned

Interest income and expense for all financial instruments measured at amortised cost is recognised in the income statement using the effective interest rate method. The effective interest rate methodology (EIR) is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

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

(v) Fees on loans

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

f. Loan Impairment

(i) Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The key assumptions used in the calculation are as set out in Note 8. Note 21 details the credit risk management approach for loans.

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

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

(ii) Reserve for credit losses

In addition to the above specific provision based on “incurred loss” model under AASB139 requirements, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future (expected loss model). The reserve for credit losses represents the difference between the incurred and expected loss model and is based on estimation of potential risk in the loan portfolio based upon:

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

(iii) Renegotiated loans

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

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

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

h. Property, plant and equipment

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

- Leasehold improvements: 5 to 10 years.
- Plant and equipment: 3 to 7 years.
- Assets less than $300 are not capitalised.

i. Receivables from other financial institutions

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

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

j. Provision for Employee Benefits

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

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

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

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

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

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

k. Leasehold on Premises

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

l. Income Tax

The income tax expense shown in the profit or loss is based on the profit before income tax adjusted for any non-tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

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

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that Australian Military Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

m. Intangible Assets

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

Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

n. Goods and Services Tax (GST)

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

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

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

o. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

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

p. Accounting Estimates and Judgements

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

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

q. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2015 that had any significant impact on the financial statements of Australian Military Bank.

r. New or emerging standards not yet mandatory

A number of new Australian Accounting Standards and amendments have been issued or amended but are not yet effective and have not been adopted by the Consolidated and Parent Entity for the annual reporting period ended 30 June 2016. These new standards and amendments when applied in future periods, are not expected to have a material impact on the financial position or performance of Australian Military Bank, other than as set out below:

- AASB 9 "Financial Instruments" amends the classification, measurement and impairment of financial instruments and general hedge accounting requirements. AASB 9 is not mandatory until 1 July 2018 and replaces AASB 139. AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. While these changes are expected to have no material impact on current accounting practices, some changes in processes will be required.
- AASB 15 "Revenue from Contracts with Customers" contains new requirements for the recognition of revenue and additional disclosures. AASB 15 is not mandatory until 1 July 2018. These changes are not expected to have a material impact upon current accounting practices.
- AASB16 "Leases" will replace AASB117 Leases. It requires the lessee to recognise a right of use asset along with the associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depeciated. The standard is effective for annual reporting periods beginning on or after 1 January 2019. Whilst these changes are expected to have no material impact on current accounting practices, some changes in processes will be required.

2. Income Statement

		2016 $'000	2015 $'000
a.	**Interest revenue**		
	Cash and cash equivalents	110	195
	Investments – held to maturity	6,069	6,501
	Loans to members	42,424	44,074
	Total interest revenue	**48,603**	**50,770**
b.	**Fee, commission and other income**		
	Fee and commission revenue		
	Fee income on loans – other than loan origination fees	1,366	1,319
	Fee income from members' deposits	3,465	3,727
	Insurance commissions	2,102	1,845
	Other commissions	659	579
	Total fee and commission revenue	**7,592**	**7,470**
	Other income		
	Dividends received on investments	128	128
	Miscellaneous revenue	281	111
	Total other income	**408**	**239**
c.	**Interest expenses**		
	Interest expense on liabilities carried at amortised cost		
	Deposits from members	22,318	24,663
	Borrowings	1,854	2,361
	Total interest expense	**24,172**	**27,024**
d.	**Impairment losses**		
	Increase/(decrease) in provision for impairment	2	(180)
	Bad debts written off directly against profit	762	1,161
	Bad debts recovered	(475)	(526)
	Total impairment losses	**289**	**457**
e.	**General administration – depreciation expense includes:**		
	– Plant and equipment	93	118
	– Leasehold improvements	216	153
	– Amortisation of software	320	206
		629	**477**
f.	**Ernst & Young/Grant Thornton**		
	– Audit fees	79	137
	– Other services – taxation	18	16
	– Other services – other	28	14
		125	**167**

	2016 $'000	2015 $'000

3. Income Tax Expense

	2016 $'000	2015 $'000
a. The income tax expense comprises amounts set aside as:		
Current tax provision	1,983	1,756
Adjustments for previous years	(21)	(9)
Total current income tax expense	**1,962**	**1,747**
Deferred tax		
Origination and reversal of temporary differences	(189)	5
Total income tax expense in income statement	**1,773**	**1,752**
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	**6,519**	**5,752**
Prima facie tax payable on profit before tax at 30%	1,956	1,726
Add tax effect of expenses not deductible	82	80
Subtotal	2,038	1,806
Less		
– Franking rebate	(55)	(55)
Income tax expense attributable to current year profit	**1,983**	**1,756**

4. Cash and cash equivalents

	2016 $'000	2015 $'000
Cash on hand	1,884	1,557
Deposits at call	41,849	32,868
	43,733	**34,425**

Included within cash and cash equivalents at 30 June 2016 is $3,441 and $110 of liquidity and expense reserve respectively (2015: $1,763 and $110) held within Artemis Securitisation Trust Repo Series No. 1 (Artemis Trust), which is not immediately available for use in the business.

5. Investments – Held to maturity

	2016 $'000	2015 $'000
Negotiable Certificates of Deposit	58,127	66,730
Floating Rate Notes	69,053	57,627
Term Deposits	73,000	98,000
	200,180	**222,357**

6. Receivables

	2016 $'000	2015 $'000
Interest receivable on deposits with other financial institutions	1,424	1,037
Sundry debtors and settlement accounts	3,892	5,491
	5,316	**6,528**

	2016 $'000	2015 $'000

7. Loans to Members

	2016 $'000	2015 $'000
a. Amount due comprises:		
Overdrafts and revolving credit	24,158	26,862
Term loans (1)	854,293	774,984
Subtotal	**878,451**	**801,845**
Less:		
Unamortised loan origination fees	(80)	(160)
Unearned income	(28)	(25)
Subtotal	**878,343**	**801,660**
Less:		
Provision for impaired loans (Note 8)	(809)	(807)
Total	**877,534**	**800,853**

(1) Included as part of term loans as at 30 June 2016 are securitised loans of $23,200 and $165,383 in Athena Trusts and Artemis Trust respectively (2015: $35,550 and $80,593) which are consolidated as part of the Group. During the year, a total of $131,917 (2015: $38,392) of variable interest rate loans were transferred from Australian Military Bank to the Trusts, with the book value of the loans transferred equating the fair value of those loans.

	2016 $'000	2015 $'000
b. Credit quality – security held against loans		
Secured by mortgage over real estate	781,815	699,478
Partly secured by goods mortgage	47,789	50,875
Wholly unsecured	48,847	51,492
	878,451	**801,845**

It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

	2016 $'000	2015 $'000
Security held as mortgage against real estate is on the basis of:		
– loan to valuation ratio of less than or equal to 80%	512,470	449,600
– loan to valuation ratio of more than 80% but mortgage insured	251,106	235,070
– loan to valuation ratio of more than 80% and not mortgage insured	18,238	14,808
Total	**781,815**	**699,478**

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

	2016 $'000	2015 $'000
c. Concentration of loans by purpose		
Loans to members		
Residential mortgage loans	781,815	699,478
Personal loans	96,636	102,367
	878,451	**801,845**
Loans to corporations	**–**	**–**

	2016 $'000	2015 $'000

8. Provision on Impaired Loans

a. **Total provision comprises**		
Specific provisions	809	807
Total Provision	**809**	**807**

b. **Movement in the provision for impairment**		
Balance at the beginning of year	807	987
Add (deduct):		
Transfers from (to) profit or loss	2	(180)
Balance at end of year	**809**	**807**

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

c. **Impaired loans written off**		
Amounts written off directly to expense	761	1,161
Bad debts recovered in the period	475	526
	286	**637**

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

In the note below:

- impaired loans value is the amount of loans to members which are past due by 90 days or more;
- provision for impairment is the amount of provision allocated to the class of impaired loans.

	2016		2015	
	Value of impaired loans $'000	Provision for impairment $'000	Value of impaired loans $'000	Provision for impairment $'000
Loans to members				
Residential mortgages	–	–	–	–
Personal	929	518	618	401
Credit cards and overdrafts	388	291	725	406
Total to natural persons	1,317	809	1,343	807
Corporate borrowers	–	–	–	–
Total	**1,317**	**809**	**1,343**	**807**

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

	2016			2015		
	Non-Impaired	Impaired	Provision for impairment	Non-Impaired	Impaired	Provision for impairment
	$'000	$'000	$'000	$'000	$'000	$'000
1 to 30 days	16,941	–	–	14,541	–	–
31 to 90 days in arrears	747	–	–	958	–	–
91 to 180 days in arrears	–	444	178	–	546	218
181 to 270 days in arrears	–	253	152	–	94	56
271 to 365 days in arrears	–	146	117	–	61	49
Over 365 days in arrears	–	182	182	–	115	115
Over limit facilities over 14 days	–	292	181	–	527	368
Total	**17,688**	**1,317**	**809**	**15,499**	**1,343**	**807**

f. Key assumptions in determining the provision for impairment

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

An estimate is based on the period of impairment.

Period of impairment	% of balance
Up to 90 days	–
91 days to 180 days	40
181 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

9. Investments

	2016	2015
	$'000	$'000
Shares in unlisted companies – at cost		
– Cuscal Limited	907	907
– Peer to Peer Lending	1,302	–
Total	**2,209**	**907**

Disclosures on shares held at cost

Cuscal Limited

The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all mutual banks and credit unions. Australian Military Bank holds shares in Cuscal to enable the mutual bank to receive essential banking services – refer to Note 28. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded in the shares is low with few transactions in the last 3 years.

Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale. Australian Military Bank is not intending to dispose of these shares.

Peer to Peer Lending

During the financial year, Australian Military Bank entered into an agreement with a peer to peer lending platform.

Under the agreement, Australian Military Bank provides funding to selected unsecured loan exposures.

As at 30 June 2016, the investment amounted to $1,302.

	2016	2015
	$'000	$'000

10. Property, Plant and Equipment

	2016	2015
a. Fixed assets		
Plant and equipment - at cost	4,660	5,162
Less: accumulated depreciation	(4,250)	(4,686)
Total plant and equipment	410	476
Capitalised leasehold improvements – at cost	2,988	2,772
Less: accumulated amortisation	(2,345)	(2,086)
Total capitalised leasehold improvements	643	686
	1,053	**1,162**

11. Deferred Tax Assets

	2016	2015
Deferred tax assets comprise:		
– Accrued expenses not deductible until incurred	25	44
– Provisions for impairment on loans	243	242
– Provisions for employee benefits	350	328
– Provisions for other liabilities	258	218
– Depreciation on fixed assets and intangible assets	(76)	176
– Cash flow hedge reserve	19	–
	819	**1,008**

12. Intangible Assets

	2016	2015
Intangible assets – at cost	3,315	4,125
Less accumulated amortisation	(2,454)	(3,395)
	861	**730**

13. Borrowings from financial and other institutions

	2016	2015
Deposits from other financial institutions	21,000	22,000
Loans	23,787	35,660
	44,787	**57,660**

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

	2016 $'000	2015 $'000

14. Deposits

	2016 $'000	2015 $'000
Member deposits		
– At call	518,912	460,213
– Term	356,676	339,004
Deposits from other financial institutions	110,500	112,602
Members withdrawable shares	99	97
	986,187	**911,916**

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

15. Derivative Financial Instruments

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

	2016		2015	
	Notional Principal	**Fair Value Liabilities**	**Notional Principal**	**Fair Value Liabilities**
Interest Rate Swaps designated as cash flow hedges	20,000	(44)	–	–

	2016 $'000	2015 $'000

16. Creditor Accruals and Settlement Accounts

	2016 $'000	2015 $'000
Annual leave	751	713
Creditors and accruals	2,356	719
Interest payable on borrowings	214	28
Interest payable on deposits	4,860	4,913
Accrual for GST payable	61	180
Sundry creditors	2,499	4,866
	10,741	**11,419**

17. Taxation Liabilities

	2016 $'000	2015 $'000
Current income tax liability	398	2,317
Current income tax liability comprises:		
Balance – previous year	2,317	525
Less paid – previous year	(2,018)	(453)
Over statement in prior year	299	72
Liability for income tax in current year	1,585	1,756
Less instalments paid in current year	(1,486)	489
Balance – current year	**398**	**2,317**

18. Provisions

	2016 $'000	2015 $'000
Long service leave	417	381
Provisions – other	865	728
Total Provisions	**1,282**	**1,109**

19. Long Term Borrowings

	2016 $'000	2015 $'000
Subordinated Debt	5,000	5,000

On the 16th of November 2012, Australian Military Bank entered into an agreement to issue $5m in Subordinated Debt with a maturity date of 16 November 2022. The terms include the payment of interest at the rate of 5.93% above the BBSW, payable quarterly. The transaction costs are amortised over the 10 year period of the debt to maturity.

20. General Reserve for Credit Losses

	2016 $'000	2015 $'000
Balance at beginning of year	1,506	1,506
Add: increase/(decrease) transferred from retained earnings	–	–
Balance at the end of year	**1,506**	**1,506**

This reserve records amount maintained to comply with the Prudential Standards set down by APRA. The board has determined this amount is sufficient to cover estimated future credit losses.

21. Financial Risk Management Objectives and Policies

Introduction

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

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

The main elements of risk governance are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

a. Market Risk

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

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

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

Fair value interest rate risk

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

Cash flow interest rate risk

Cash flow interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a monthly basis and managed using interest rate swaps.

Interest rate risk in the banking book

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

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

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

Method of managing risk

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

Hedging

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

Value at Risk (VaR)

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

The VaR on the banking book was as follows:

	2016	2015
VaR	$183,674	$182,478

Australian Military Bank is therefore confident within a 99 per cent confidence level over 365 days that, given the risks as at 30 June 2016, 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.

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

b. Liquidity Risk

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

Australian Military Bank manages liquidity risk by:

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

Australian Military Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. Australian Military Bank's policy is to operate within the range of 12% to 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this range the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 25 describes the borrowing facilities as at the balance date.

The maturity profile of the financial assets and liabilities, based on the contractual repayment terms are set out in Note 22.

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

APRA Liquid funds to total adjusted liabilities

	2016	2015
Prescribed liquidity %	9.00%	9.00%
As at 30 June	14.90%	15.11%
Average for the year	14.57%	15.27%
Minimum during the year	13.49%	13.23%

c. Credit Risk

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

(i) Credit Risk – Loans

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

Loan Type	Carrying value	Commitments	Maximum exposure
	2016		
	$	$	$
Mortgages	781,815	77,502	85,317
Personal	72,362	1,470	73,832
Credit cards and overdrafts	24,274	25,175	49,449
Total to natural persons	**878,451**	**104,147**	**982,598**
	2015		
Mortgages	699,478	69,748	769,226
Personal	75,099	850	75,949
Credit cards and overdrafts	27,268	21,260	48,528
Total to natural persons	**801,845**	**91,858**	**893,703**

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

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

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

Australian Military Bank has established policies over the:

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

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

Past due and impaired

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

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

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

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

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

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

Details are set out in Note 8.

Collateral securing loans

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

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

Concentration risk – individuals

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

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

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

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

Concentration risk – industry

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

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

(ii) Credit risk – liquid investments

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

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

External credit assessment for institution investments

Australian Military Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

	2016		
Investments with:	**Carrying value**	**Past due value**	**Provision**
	$	$	$
Cuscal – rated A-1	6,618	–	–
Banks – rated below AA	197,346	–	–
Credit Unions – rated below AA	39,949	–	–
Total	**243,913**	**–**	**–**
	2015		
Cuscal – rated A-1	10,675	–	–
Banks – rated below AA	204,201	–	–
Credit Unions – rated below AA	41,905	–	–
Total	**256,781**	**–**	**–**

d. Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Australian Military Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Australian Military Bank is able to manage these risks to within tolerable limits. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes; including the use of Internal Audit.

(i) Fraud

Fraud can arise from member card PINS and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. Australian Military Bank has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all ADI's, fraud is potentially a real cost. Fraud losses have arisen from card skimming, internet password theft and false loan applications.

(ii) IT systems

The worst case scenario would be the failure of Australian Military Bank's core banking and IT network suppliers to meet customer obligations and service requirements. Australian Military Bank has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which services the Customer Owned Banking market. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of Australian Military Bank by the industry body CUSCAL to service the settlements with other financial institutions for direct entry, ATM cards, Visa cards, and BPAY etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

e. Capital Management

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

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

Tier 2 capital mainly comprises of subordinated debt instruments, and contributes to the overall capital framework.

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

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

From 1 January 2016, APRA implemented a capital conservation buffer of 2.5% of an ADI's total risk-weighted assets.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Board. Australian Military Bank remains well capitalised with a total capital ratio of 14.72% (2015: 15.3%).

22. Maturity Profile of Financial Assets and 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 assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date, assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and 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.

2016	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
ASSETS								
Cash and cash equivalents	43,733	40,182		–	–	–	3,551	43,733
Investments – held to maturity	200,180	–	117,456	55,093	41,147	–	–	213,696
Gross loans to members	878,451	–	27,821	87,391	356,711	1,365,345	–	1,837,268
Investments	2,209	–	–	–	–	–	2,209	2,209
Total Financial Assets	**1,124,573**	**40,182**	**145,277**	**142,484**	**397,858**	**1,365,345**	**45,942**	**2,096,906**
LIABILITIES								
Borrowings from financial and other institutions	44,787	–	12,010	8,024	1,014	23,740	–	44,787
Deposits from other financial institutions	110,500	–	88,280	21,778	1,031	–	–	111,089
Deposits from members – at call	519,011	518,912	–	–	–	–	99	519,011
Deposits from members – term	356,676	–	230,342	222,976	12,568	–	–	465,886
Derivatives	63	–	–	–	63	–	–	63
Long term borrowings	5,000	–	–	–	5,583	–	–	5,583
Total Financial Liabilities	**1,036,037**	**518,912**	**330,632**	**252,777**	**20,259**	**23,240**	**99**	**1,146,419**

2015	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
ASSETS								
Cash and cash equivalents	34,424	32,551	–	–	–	–	1,873	34,425
Investments – held to maturity	222,357	–	117,431	76,546	31,492	–	–	225,469
Gross loans to members	801,845	–	27,090	84,667	341,606	1,280,406	–	1,733,769
Investments	907	–	–	–	–	–	907	907
Total Financial Assets	**1,059,533**	**32,551**	**144,521**	**161,213**	**373,098**	**1,280,406**	**2,780**	**1,994,570**
LIABILITIES								
Borrowings from financial and other institutions	57,660	–	12,006	5,012	5,035	35,607	–	57,660
Deposits from other financial institutions	112,602	–	98,758	14,438	–	–	–	113,195
Deposits from members – at call	460,310	460,213	–	–	–	–	97	460,310
Deposits from members – term	339,004	–	244,260	178,420	32,603	–	–	455,282
Derivatives	–	–	–	–	–	–	–	–
Long term borrowings	5,000	–	–	–	5,988	–	–	5,988
Total Financial Liabilities	**974,576**	**460,213**	**355,023**	**197,870**	**43,625**	**35,107**	**97**	**1,183,793**

23. Fair Value of Financial Assets and Liabilities

The fair value is required to be disclosed where the financial instruments are not measured at fair value in the Statement of Financial Position. Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value. With the exception of derivatives and loans to members, for the financial instruments where the fair values are reported below, all are measured using Level 3 unobservable inputs. Derivatives are reported at fair value measured using Level 2 inputs. Level 2 inputs are other techniques for which all inputs have a significant effect on the recorded fair value, are observable, either directly or indirectly. The description of the valuation technique(s) and the inputs used in the fair value measurement are in the notes that follow.

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Australian Military Bank, and there is no active market to assess the value of the financial assets and liabilities.

The values reported have not been adjusted for the changes in credit ratings of the assets.

	2016		2015	
	Fair value	Carrying value	Fair value	Carrying value
	$'000	$'000	$'000	$'000
FINANCIAL ASSETS				
Cash and cash equivalents (1)	43,733	43,733	34,424	34,424
Investments – held to maturity	201,847	200,180	223,151	222,357
Receivables (1)	5,316	5,316	6,529	6,529
Loans to members	869,861	877,534	795,850	800,853
Investments	2,209	2,209	907	907
Total financial assets	**1,122,966**	**1,128,972**	**1,060,861**	**1,065,070**
FINANCIAL LIABILITIES				
Borrowings	44,800	44,787	57,670	57,660
Deposits from other financial institutions	110,693	110,500	112,733	112,602
Deposits from members - at call (1)	518,912	518,912	460,213	460,213
Deposits from members - term	352,014	356,676	338,945	339,004
Creditors (1)	5,074	5,074	5,839	5,839
Derivatives	63	63	–	–
Total financial liabilities	**1,031,556**	**1,036,012**	**975,400**	**975,318**

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

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

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

Liquid assets and receivables from other financial institutions

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

Loans and advances

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

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

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

Deposits

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

Borrowings from financial and other institutions

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

	2016 $'000	2015 $'000

24. Financial Commitments

	2016 $'000	2015 $'000
a. Outstanding loan commitments		
The loans approved but not funded	25,365	23,521
b. Loan redraw facilities		
The loan redraw facilities available	53,607	47,809
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	49,449	47,390
Less: Amount advanced	(24,274)	(26,862)
Net undrawn value	25,175	20,528
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**104,147**	**91,858**
d. Computer expenditure commitments		
Australian Military Bank has entered into a contract to purchase computer equipment and software for which the amount is to be paid over the following periods:		
Within 1 year	537	537
Later than one year but not later than five years	369	933
Over five years	–	–
	906	1,471
e. Lease expense commitments for operating leases on property occupied by Australian Military Bank		
Within 1 year	981	936
Later than one year but not later than five years	4,528	4,284
Over five years	2,552	3,765
	8,060	8,985

Future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date are $27,716 [2015: $83,148]. The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 3 years. There are no restrictions imposed on Australian Military Bank so as to limit the ability to undertake further leases, borrow funds or dividends.

25. Standby Borrowing Facilities

Australian Military Bank has a number of borrowing facilities.

	Gross $'000	Current borrowing $'000	Net available $'000
2016			
Overdraft facility – Cuscal	3,000	–	3,000
Loan facility – Other	50,000	–	50,000
Athena – Westpac committed facility	100,000	23,787	76,213
Total standby borrowing facilities	**153,000**	**23,787**	**129,213**
2015			
Overdraft facility – Cuscal	5,000	–	5,000
Loan facility – Other	50,000	–	50,000
Athena – Westpac committed facility	100,000	35,550	89,450
Total standby borrowing facilities	**155,000**	**35,550**	**144,450**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of Australian Military Bank as security against loan and overdraft amounts drawn under the facility arrangements.

26. Contingent Liabilities

Reserve Bank Repurchase Obligations (REPO) Trust

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

27. Disclosures on Key Management Persons

a. Remuneration of Key Management Persons (KMP)

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

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

KMP have been taken to comprise the Directors and the 2 members of the Executive Management responsible for the day-to-day financial and operational management of Australian Military Bank. The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

	2016 $'000	2015 $'000
(a) short-term employee benefits	1,156	970
(b) post-employment benefits – superannuation contributions	106	71
(c) other long-term benefits – net increases in long service leave provision	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
Total	**1,262**	**1,041**

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

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

b. Loans to KMP

Australian Military Bank's policy for lending to Directors and management is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit with the exception of loans to KMP who are not Directors.

There are no loans which are impaired in relation to the loan balances with Director's or other KMP. KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits where subject to fringe benefits tax are included in the remuneration in 27(a) above.

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

The details of transactions during the year are as follows:

	2016			2015		
	Mortgage secured	**Other term loans**	**Credit cards**	**Mortgage secured**	**Other term loans**	**Credit cards**
Funds available to be drawn	–	–	26	–	–	20
Balance	–	–	–	–	–	1
Amounts disbursed or facilities increased in the year	–	–	–	–	–	–
Interest and other revenue earned	–	–	–	–	–	–

	2016	**2015**
Other transactions between related parties include deposits from Directors, and other KMP are:		
Total value term and savings deposits from KMP	352	315
Total interest paid on deposits to KMP	3	12

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

c. Transactions with other related parties

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

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

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

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

28. Outsourcing Arrangements

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

a. Cuscal Limited

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

(i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa Card and cheque transactions, direct entry transactions, as well as the production of Visa cards for use by members;

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

(iii) provides treasury and money market facilities to Australian Military Bank. Australian Military Bank invests part of its liquid assets with Cuscal.

b. Ultradata Australia Pty Limited

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

c. Transaction Solutions Pty Limited

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

29. Superannuation Liabilities

Australian Military Bank contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee.

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

30. Notes to Cash Flow Statement

	2016 $'000	2015 $'000
a. Reconciliation of cash		
Cash on hand	1,884	1,557
Deposits at call	41,849	27,912
Total cash and cash equivalents	**43,733**	**29,469**
b. Reconciliation of cash flows from operations to profit after income tax		
Profit after income tax	4,746	4,001
Add (Deduct):		
Depreciation expense	629	477
Increase in provision for income tax	(1,919)	1,792
Increase in other provisions	173	268
Decrease in provision for loans	2	(180)
Increase in accrued expenses	(811)	2,875
Increase in interest payable	133	(830)
Increase in prepayments	(3)	215
Decreases in sundry receivables	1,600	(4,930)
Increase in deferred tax assets	188	(4)
Decrease in other assets	1	(1)
Increase in interest receivable	(387)	(363)
	4,352	3,320
Net cash flows from other operating activities		
– Add (Deduct) non revenue operations		
– Reduction in loans balances	(76,682)	(56,786)
– Increase in deposit balances	74,271	125,344
Net cash flows from operating activities	**1,941**	**71,878**

31. Corporate Information

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

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

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

Directors

RADM Clinton William Thomas AM, CSC, RANR

John Robert Brooks

Jodie Marie Hampshire CFA

Bruce Andrew Robert Scott, CSC

BRIG Jane Maree Spalding, AM

Warren Raymond Thomas

Graham Anthony Weber

Chief Executive Officer

John Ronald Ford

Auditors

Ernst & Young

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

Images Index

These images are courtesy of the Department of Defence

Inside Front Cover

Australian Army soldier Private Tomekai Torr of the 5th Battalion, Royal Australian Regiment, prepares his sleeping area during Exercise Hamel at the Cultana Training Area, on 7 July 2016.

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Able Seaman Electronics Technician Anthony Zdjelarevic uses a piston ring expander to adjust a piston ring from the engine section of a MK48 Heavyweight torpedo in the Torpedo Maintenance Facility at the Navy Guided Weapons Systems Program Office-West on HMAS Stirling.

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Royal Australian Air Force Leading Aircraftwoman Jacquelyn Nelson is seen at Suva Airport while deployed as a member of Operation Fiji Assist's ground movements team.

Australian
Military Bank

1300 13 23 28
australianmilitarybank.com.au

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