Annual 2019 Report

policebank borderbank Bank of Heritage Isle

Contents

Looking over the past financial year

Over the past financial year, we have completed an enormous amount of work which was focused on strengthening our foundations and setting up our three brands for growth.

While undertaking this work, we were very proud to be the recipient of over 10 awards for our wide range of products and services and were awarded Australia's Best Small Bank.

Mobile Mortgage Lenders

We introduced a team of Mobile Mortgage Lenders in Sydney, Melbourne, and Canberra, offering a simpler, more convenient way of lending, by meeting our Members at a time and place that suits them, whether it be at their home, workplace or even their favourite cafe. And this may, of course, involve appointments outside of normal banking hours.

Launch of Border Bank

We launched the Border Bank brand, replacing Customs Bank, creating a modern bank for employees of the Department of Home Affairs, their families and associated community groups. The launch of Border Bank aligned with the Department of Home Affairs. As part of this launch we reviewed our service channels and introduced a group of Mobile Mortgage Lenders as well as updating our communication methods.

Penrith Branch

We relocated our Penrith Branch to a fantastic modern space directly opposite Penrith Police Station and Penrith Police Area Command. The improved Penrith Branch continues to offer outstanding service to our Members in Greater Western Sydney, with a relocation of an ATM into the Police Station premises which is accessible to local Police and the public.

New Teenage Flex Account

We introduced a new savings account for Members aged thirteen to seventeen called the Flex Savings Account.

The Flex Savings Account has all of the features of our award-winning Dynamo Account, however, the new account allows us to provide a better banking experience for our teenage Members.

Members will automatically transition from the Dynamo account to the Flex Savings account once they turn 13, and Members who join the bank between the age of 13–17 will become Flex Account Members instead of Dynamo Members.

Credit Card Reforms

At the beginning of 2018, the Australian Government introduced legislation changing the way credit card providers handle their credit cards. In keeping with our compliance obligations, over the course of the financial year we implemented the four credit card reforms.

Digital Self Service Booking Platform

We launched a new digital home loan appointment booking platform for our Border Bank Mobile Mortgage Lending team, allowing our Members to conveniently book an appointment with a Mobile Mortgage Lender in real-time on our website.

Bank of Heritage Isle Integration

The integration of Heritage Isle was a major focus for the Bank and marked a significant milestone in our growth strategy, resulting in improvements to the products and services that we can offer our Bank of Heritage Isle Members. This remarkable achievement completed the merger of Bank of Heritage Isle into the Police Bank business following the merger in May 2018, allowing all three of our brands to now operate on the same platform and enabling us to offer more products and services to our Members and more flexibility of banking locations.

Pays Launch for Heritage Isle

We launched digital wallets for Bank of Heritage Isle, enabling Members to access Apple Pay, Google Pay, and Samsung Pay. Digital wallets allow Members to pay with their Visa Debit and/or Credit card with the tap of a smartphone while enjoying the same benefits as a physical card.

New Payment Platform for Heritage Isle

We launched the New Payments Platform for Bank of Heritage Isle which allows near real time payments and transfers to accounts at participating financial institutions.

New Heritage Isle Hobart Branch

We were delighted that our Bank of Heritage Isle Hobart Branch opened its doors on 11 March 2019, shortly after the success of the system integration.

The Hobart Branch is part of a new locally designed development and is located in the centre of the Hobart CBD, on the corner of Elizabeth Street Mall and Collins Street.

The location of our Branch ensures that we have the best possible exposure to foot traffic and is a short five-minute walk to both the Hobart Police Station and the Australian Federal Police Office.

As Police Bank, Border Bank and Bank of Heritage Isle are all on common systems following the system integration with Heritage Isle, our Branches are able to offer banking services to Members from any of our three brands.

A New Loan Assessment Platform

We commenced the pilot of a new, powerful and easy-to-use lending and credit assessment tool across our three brands which delivers an end-to-end loan application process, allowing us to assess applications faster and more accurately.

Police Bank Annual General Meeting

The 2018 Police Bank Annual General Meeting was held at Sydney Masonic Centre on Thursday, 29 November 2018, where Colin Dyson was re-elected as a Director.

Awards

Throughout the financial year, our various excellent finance and investment products were awarded ten Mozo Experts Choice Awards, an award in Money magazine's Best of the Best award, and we were recognised at DBM Australian Financial Awards 2019 as the Best Digital Bank in the Retail (non-major) Banking category.

MOZO Awards

We won ten Mozo Awards including Australia's Best Small Bank and Personal Loan Provider of the Year in the Mozo Experts Choice Awards.

- Australia's Best Small Bank (2019)
- Personal Loan Provider of the year
- First Home Buyer Loan
- Pocket Money Regular Saver
- No Strings Savings
- Excellent Credit Unsecured Personal Loan
- Green Personal Loan (winning two awards)
- Unsecured Personal Loan
- Used Car Loan

Money Magazine Awards

Our Dynamo Kids Savings Account won Best Kids Savings Account – Bank category in Money magazine's 2019 Best of the Best awards.

DBM Awards

Police Bank was recognised at the DBM Australian Financial Awards 2019 as the Best Digital Bank under the Retail Banking category.

Looking into the next financial year

Building a Better Bank for our Members

Looking into the new financial year, we will continue to Build a Better Bank by adhering to our long term strategic objectives with a firm vision of how we will reach them.

Our long term strategic objectives are:

1. Superior Member experience
2. Ensuring our products are competitive
3. Effective risk management
4. Sustainable growth
5. Stable profitability
6. Building a collaborative culture

In order to reach these strategic objectives, we will:

1. Optimise our banking channels and create new and engaging digital and Member experiences across our three brands.
2. Strengthen our bond with our communities, and extend the reach of our Police Bank, Border Bank and Bank of Heritage Isle brands through various marketing activities to more associated charities and community groups.
3. Continue to invest a significant amount of time strengthening our foundations and resolving legacy issues, and in doing so will be able to offer our Members improved products to suit their needs.

Digital and Member Experience Enhancements

Over FY19, a new Digital and Customer Experience team was created with the aim of building new and engaging experiences across our three brands. Over the coming financial year, this team will be heavily focused on enhancing our digital and Member experience capability to make banking easier.

Online Forms

In order to make it easier and faster for our Members to find the right products for them, we are currently in the process of building up a new platform for online applications and forms for personal lending, membership, mortgages, and liabilities.

Online Property Reports

To help our Members and potential Members make informed decisions when entering the property market, we will be releasing a Property Report service which will enable them to perform a nation-wide property search and download a detailed report, directly to their inbox. As a web-based platform it can be accessed on desktop, tablet or mobile, and it won't require users to download an app to search for a property.

Lending Pipeline

Throughout the last financial year, we developed a lending pipeline which enables us to better service our Members' enquiries. Over the coming year, we will be enhancing the capability of this tool so that we can better service our Members through the loan process, ensuring that our Members receive consistent information and experience.

Dedicated Product Team

We have invested in a dedicated Product Team who are focused on ensuring we offer competitive products which are easy to understand and manage. Over the coming Financial Year, they will simplify and enhance our product range to make them more useful and relevant to our Members.

Supporting our Members and their communities

As a mutual Bank that is dedicated to the communities that we serve, we are equally proud of the work that we do for our communities outside of Banking. Over the past 12 months, we have given back to the communities and areas in which we operate and continue to be present at the community events which our Members value most.

We will continue our support for our various communities by providing lending to our Members and supporting causes that are close to their hearts: Police Citizens Youth Clubs, NSW Police Legacy, Australian Federal Police Legacy, the Police Association NSW, the Australian Federal Police Association and the NSW Retired Police Association.

We also sponsor a variety of sporting teams:

- NSW Police Football Club
- NSW Police Mixed Touch Football Team – Australasian Police & Emergency Services Games
- Tasmania Police Football Club
- Police NSW Basket Ball Club
- NSW Police Ski Team
- Australian Police Rugby Championships
- Customs Golf Challenge – Sydney v Canberra
- National Police AFL Championships 2018

Police Bank celebrated Wear it Purple Day

Police Bank celebrated Wear it Purple Day to foster supportive, safe and accepting environments for LGBTQI+ young people.

Ride for Justice

Police Bank was proud to be the major sponsor of the Ride for Justice, when nearly 300 motorcycles rode out of Luna Park in Sydney's Lower North Shore with riders heading south to Ebony House with a full police escort, raising funds and awareness for the Homicide Victims Support Group.

Police Week 2018

Wall to Wall

During Police Week, our Canberra colleagues set up at the Fitzroy pavilion during the Wall to Wall Ride with offers and merchandise. Police Bank provided two coffee vans for the event and we asked guests for a gold coin donation which we donated to Wall to Wall.

Community Balls

Police Bank is proud to support building better communities through social events. In the past year we took part in the following Balls:

- Blue Ribbon Ball is the largest annual fundraiser for NSW Police Legacy and allows the community to recognise and acknowledge the proud traditions and history of the NSW Police Force. There was over 800 attendees at the 2018 event which was held at the Sydney International Convention Centre and was a great success raising a new record of the provision of tertiary scholarships, education grants, welfare grants, camps and other social activities for our Police Legatees both young and old.
- Illawarra Police Charity Ball is the longest continually running police ball in NSW which is attended by over 300 guests from the local Police Area Commands, NSW Police Commissioner and Deputy Commissioner with local community Members to raise funds for local charities. The 2018 event was held at the University of Wollongong and the proceeds were donated to Aspect South Coast School which supports students on the autism spectrum.
- Surry Hills Police and Community Gala Ball held its inaugural event in October 2018 to bring together businesses, sporting identities and political figures who play an important role in the community with Police Officers from a variety of Commands across the NSW Police Force. The attendees included Prime Minister Scott Morrison, NSW Premier Gladys Berejiklian and NSW Police Commissioner Michael Fuller.
- The event raised money for the Sony Foundation which provides funds for children with special needs to attend holiday camps and provide their families with much-needed respite. Proceeds of the event also went to NSW Police Legacy.

Rotary Police Officer of the Year

We were very proud to support the Rotary NSW Police awards, showcasing excellence in Policing and unsworn employees throughout NSW.

Encore Theatre Company Launceston

Our Heritage Isle brand has been a major sponsor of Encore Theatre Company for a number of years. Founded in April 2008, the Encore Theatre Company have since presented 25 high-quality theatre shows to a collective audience of 103,500+ and involving up to 400 community volunteers each year.

How we've supported our Members

759,000
transactions
for fuel.

76,683
calls from Members
through the Contact Centre.

Helped
4459
Members
own a home.

218,484
overseas
transactions.

2.4m
transactions
for groceries
and food.

($12 million)
500,000
transactions
through "The Pays".

A word from the Chair

It is my pleasure to introduce the 2019 Police Bank Annual Report and Financial Statements.

The past financial year has been an important year for Police Bank. As part of our roadmap for future growth, we made significant investments into completing the integration of the Heritage Isle business, launch of Hobart Branch and rebranding Customs Bank to Border Bank, while maintaining our focus on our Members and growing our business in challenging market conditions. At the same time, we continued to develop our digital capability and addressed legacy issues through our product rationalisation and remediation projects.

These investments meant that our year-on-year profit for Financial Year 2019 was significantly lower. However, I look forward to the returns that they will bring the Bank over the coming years; returns which we can invest back into creating better and more relevant products and experiences for our Members.

We said thank you to David Walton who stepped down as Chair on 29 January and were pleased that he continued to serve the Bank as a Director throughout the remainder of the financial year. David served as Chair from 2012 to 2019 and during this time, oversaw significant growth of the Bank and our service to Members significantly evolve. David's advice, support, and leadership have left a meaningful legacy.

We also said farewell to two Directors whose appointments ended during the year: Scott Weber on 29 January 2019 and Clare Mazzetti on 27 March 2019. Both Directors made an enormous contribution to the Board and to the various committees that they served on.

Finally, I would also like to thank my fellow Directors on our Board, the Management team and all colleagues in the Bank for their commitment during the past financial year.

Our plans for the year ahead will see us strengthen our foundations and focus on our digital capability to ensure we support the Police, Home Affairs, Tasmanians, their families and associated community groups.

On behalf of our Board and Management, I would like to thank you, our Members, for your ongoing loyalty and support.

Greg McKenna
Chair

A word from the CEO

Police Bank saw its assets grow to more than $2 billion over the past year and the Bank now has a membership base of more than 75,000.

We've expanded our footprint to cover not only New South Wales and the NSW Police Force, but also the Australian Federal Police, the Department of Home Affairs through our relaunched and rebranded Border Bank, and of course the merger with the Heritage Isle Credit Union to create Bank of Heritage Isle has opened up the Tasmanian Police Force and the island of Tasmania as an area of operation.

That expanded footprint and the investment in those brands comes with a cost in the current year but will pay off for Police Bank in the years to come.

Driving these and other investments is the reality that your Bank is owned by you and other Members and as such our values are driven by the commitment to you, your families, and your communities. And as a member owned Bank, Police Bank is about people before profit. That means we are committed to the communities we serve.

The result is we continued to give generously, contributing more than 12% of our net profit to the communities we serve.

Being a Member owned institution means we also have a primary focus on Members as customers. Your financial needs, wants, and desires are evolving with technology and the economy.

As a result, we made some substantial investments to improve our capabilities with the launch of the mobile lending channel in Border Bank and the opening of a Branch in Hobart to serve the southern part of Tasmania as well as the many police based in that region. In Police Bank itself we revamped our product range to better align with the feedback we were getting from Members and these changes – all of them - have been well supported by you, so thanks.

We've also improved the competitive position of the rates we offer so we're consistently at the low end of the range for ADIs (Authorised Deposit-taking Institutions) with branch networks. At the same time, we've also kept our deposit rates as generous as we can manage in a world where the Reserve Bank has changed course from thinking rates were going higher earlier this year to one where cash rates are below 1% and could fall to 0.25% or even zero.

Of course that investment in capability also includes technology and process improvements which, taken together with our investment in our Police, Border, and Heritage Isle brands and our investment in Members and their families through consistently competitively priced deposit and loan products, has put downward pressure on net profit after tax.

That's a natural result of these investments in the Bank and its Members. And it's a natural result of the changed economic, banking, and compliance environment that has emerged in the past 12 months or so.

Our profit of $2.4 million might look small but it includes the investments listed above and will stand the Bank in good stead in the years ahead to face into the challenges that are likely to arise as we head into the 2020s and beyond.

In FY20, we will continue to ensure that we improve our processes, as well as strengthening the foundations of our products and services to ensure that we deliver the outcomes that meet our Members' needs.

And of course the continued digital development of the Bank is ongoing and we look forward to another year of strengthening our relationships with the Police, Department of Home Affairs and our Tasmanian communities.

Mr. A Rasby
Acting Chief Executive Officer

Board of Directors

Police Bank is owned by its Members, who elect a Board of Directors to provide strategic leadership for the Bank.

The Board

The Board's role is to set policy and provide strategic direction for the Bank. It is advised by Board Committees and external auditors and is supported by the Bank's senior management team. The Board provides direction to the CEO of Police Bank. The Bank's management team then executes the Board's policies and responds tactically to the Board's strategic lead.

Board committees

Each Board Committee has a specific role that contributes to the detailed oversight provided by them.

Corporate Governance

The Corporate Governance Committee ensures that the Board adheres to good corporate governance practice including:

» Fulfilling its APRA (Australian Prudential Regulation Authority) obligations as defined in APRA Prudential Standards CPS 510 and CPS 520

» Ensuring all Directors are fit and proper people for their roles, are elected or re-elected correctly, serve appropriate terms and receive appropriate remuneration

» Ensuring an adequate dispute resolution framework is in place.

Risk

The Risk Committee recommends a risk profile and risk management framework to the Board and oversees how the framework is applied to the business by:

» Ensuring that the internal controls in the business monitor and manage risks effectively

» Reviewing processes to ensure that they meet prudential standards, legal requirements, and industry and ethical standards

» Understanding and driving the risk culture of the Bank.

Audit

The Audit Committee ensures that the Board meets its external and internal audit obligations, financial reporting, accounting policies, management and internal controls by:

» Overseeing internal and external audits and appraising their quality

» Reviewing financial information before it is presented to Members and regulators

» Approving the internal audit charter and providing a forum where Board, senior management and auditors can communicate with each other

» Determining whether the Bank's administrative, operating and accounting controls are adequate.

Board Nominations Committee

The Nominations Committee has been established to independently assess the fairness and propriety of all candidates for the positions of Director.

Also, the Committee ensures that those persons interviewed for the position of Director have the appropriate level of skills, experience, and qualifications to be eligible to be a Director. This Committee holds at least one meeting each year.

About the Board

Mr. G McKenna

CHAIR

Mr. McKenna was appointed as the new Chair of Police Bank effective 29 January 2019. Before his appointment, Mr. McKenna had served as a Director on the Board between July 2012 and July 2018. His career in banking and finance spans more than 30 years with a focus on financial markets and economics – he understands the plumbing of global banking. And, his experience includes significant roles at NSW State Super, Westpac, NAB, Newcastle Permanent, and as an independent economic, trading and banking consultant. He is a contributing editor to Business Insider Australia and holds a Masters of Applied Finance from Macquarie University, a Bachelor of Business (banking and finance) from Monash University, and is a graduate and member of the AICD.

Mr. P Remfrey

DEPUTY CHAIR
AUDIT COMMITTEE
RISK COMMITTEE
CORPORATE GOVERNANCE COMMITTEE

Mr. Remfrey was appointed Deputy Chair on 19 December 2018. Before his appointment, Mr. Remfrey had served as a Director on the Board since 2016. He has been the Secretary of the Police Association of NSW from 1994 to 2018 and Branch Administrator of the NSW Police Branch of the Police Federation of Australia from 1988 until 2018. He is a life member of the Police Association of NSW. Peter holds an Economics Degree (USyd) and studied Industrial Relations at Harvard University. He is also a nationally accredited mediator and a graduate of the Company Director's Course. Peter is currently the CEO of the Workers Health Centre and is a Trustee and member of the Finance and Governance Committee of Unions NSW.

About the Board

Mr. R Del Vecchio

DIRECTOR
CORPORATE GOVERNANCE (CHAIR)
AUDIT COMMITTEE

Mr. Del Vecchio has been a Director since 2008. He is currently the Assistant Secretary of the Police Association of NSW, a Director of the charity Educating the Future and has held the position of CEO of the Migration Institute of Australia. He is a former Director of Police Legacy NSW, the Police Superannuation Advisory Board and former Chairman and President of the Eastern Suburbs Football Association. He has previously worked in fraud identification, risk management and card operations for financial institutions. He co – authored Financial Best practice in Trade Unions for the ACTU.

He holds qualifications in criminology and policing. He is a Fellow of the Australian Institute of Company Directors and attended the corporate governance program at Harvard Business School. He is a member and the Honorary auditor of the Retired Police Association.

Mr. C Dyson

DIRECTOR
RISK COMMITTEE (CHAIR)
AUDIT COMMITTEE

Mr. Dyson has been on the Board since 2012 and was formerly the Deputy Chair. He has had a distinguished career as a former Detective Superintendent of Police, Commander of the NSWPF Fraud and Cybercrime squad. He is a recipient of the Australian Police Medal, National Medal 2nd clasp, NSW Police Medal 6th clasp, and the National Police Medal. He holds qualifications in management, personnel management, and corporate governance, and has completed Strategic Leadership and Command Development programs with the NSWPF.

Mr. D Hudson

DIRECTOR
CORPORATE GOVERNANCE

Mr. Hudson has been a Director since 2017. He has a distinguished service record in the NSW Police Force, including as Deputy Commissioner for Investigations and Counter-Terrorism, Deputy Commissioner for Corporate Services, Commander of State Crime Command and Local Area Commander of Rosehill and Mt Druitt. He has been awarded the Australian Police Medal, Police National Service Medal, National Service Medal 2nd clasp, Police Medal 5th clasp and Commissioner's Commendation for Service. He is a Master of Public Policy and holds other qualifications in criminology and corporate governance.

Ms. C Mazzetti

DIRECTOR (RETIRED 27 MARCH 2019)
AUDIT COMMITTEE
RISK COMMITTEE

Ms. Mazzetti served as a Director between 2017-2019. She has a solid track record in corporate governance through her former memberships of the Australian Shareholders Association, the Australian Medical Association Foundation (QLD) and the Agriculture Management Company, and in banking and finance with Macquarie Bank, AMP and as an independent consultant.

She holds an MBA, as well as qualifications in economics, governance and risk management. She is a member of FINSIA and the AICD and was a director of Chelsea Wealth Management Pty Ltd.

About the Board

Mr. R Redfern

DIRECTOR
AUDIT COMMITTEE (CHAIR)
RISK COMMITTEE

Mr. Redfern has been a Director since 2013. He has had a distinguished career in policing and law as a solicitor in the Supreme Court of NSW and High Court of Australia and as Commander of Workforce Safety NSWPF. He has earned the Australian Police Medal, National Medal and the Commissioner's Commendation for Service, and holds qualifications in law, economics, criminology, and police management, public administration and a Master of Studies in Applied Criminology and Management from Cambridge.

Mrs. E Swain AM

DIRECTOR
AUDIT COMMITTEE
RISK COMMITTEE
STAKEHOLDER COMMITTEE

Mrs. Swain was appointed by the Board after the successful merger with Heritage Isle in May 2018, where she served as the Chair for 4 years. A metallurgist and leader (R&D and superintendent of large teams in operations, engineering, and maintenance), Liz worked at Tasmania's Rio Tinto Aluminium smelter in Bell Bay for 44 years. She has been recognised for her contribution as a role model for female engineers and contributions within the community in a range of services (Tasmanian Business Woman of the Year, Life Members of Diving Tasmania, and a Federal Government awarded diversity scholarship with the Australian Institute of Company Directors). She has tertiary qualifications in metallurgy, chemistry, business, leadership, a MBA and is a Graduate and Fellow of the Australian Institute of Company Directors. In 2018, Liz was admitted as a Member of the Order of Australia (AM) for her contribution in the mining industry as a metallurgist and leader, role model for female engineers and her many years of community service. Liz has 20 years of directorship experience covering a wide range of boards, including NFP and GBE's.

Mr. D Walton

DIRECTOR (RESIGNED 1 AUGUST 2019)
CHAIR (UNTIL 29 JANUARY 2019)
CORPORATE GOVERNANCE COMMITTEE

Mr. Walton served as the Chair between 2012–2019 and was on the Board between 2001–2019. He has experience as a Detective Inspector of Police (NSW), an audit and risk executive with Energy Australia (Ausgrid) and a casual academic with Charles Sturt University, the University of Western Sydney and the Australian Institute of Police Management. Mr. Walton is a Fellow of the Australian Institute of Company Directors and holds a Bachelor of Business, Master of Leadership and Management and attended the corporate governance program at Harvard Business School. He was a director of Chelsea Wealth Management Pty Ltd and auditor of the Retired Police Association and the NSW Police RSL Sub-Branch.

Mr. S Weber

CORPORATE GOVERNANCE COMMITTEE
(RETIRED 29 JANUARY 2019)

Mr. Weber served as Director between 2015–2019. He has served as President of the NSW Police Association and Vice President of the Police Federation of Australia. He is a Sergeant of Police (NSW) and a former member of the Police Superannuation Advisory Board. He holds qualifications in corporate governance and policing. Scott is now the current CEO of the Police Federation of Australia representing over 62,000 Police Officers across the country.

About the CEO and Executive Committee

Mr. A Rasby

ACTING CHIEF EXECUTIVE OFFICER

Mr. Rasby is the Acting CEO of Police Bank. He has 31 years' experience in retail banking, financial services, mortgage broking, commercial banking and private banking. He is a non-practicing CFP and member of the Financial Planning Association. He has held senior leadership roles in Bankwest, Aussie, CBA and most recently as General Manager at Yellow Brick Road. He also has responsibility for Chelsea Wealth Management and has been on the Board of the Miracle Babies Foundation for the last six years. He has a Diploma of Financial Planning and Diploma of Financial Services.

Our Executive Team is made up of leaders diverse in thought, with experience from a wide range of corporate backgrounds. With this strong leadership, the Executive Team is well placed to continue to develop a sound strategy to lead Police Bank into the future.

Financial Statements

From the Auditor

AUDITOR'S INDEPENDENCE DECLARATION

GrantThornton

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Auditor's Independence Declaration

To the Directors of Police Bank Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Police Bank Limited for the year ended 30 June 2019, I declare that, 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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott
Partner – Audit & Assurance

Sydney, 26 September 2019

INDEPENDENT AUDITOR'S REPORT

GrantThornton

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Independent Auditor's Report

To the Members of Police Bank Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Police Bank Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

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

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT (continued)

Grant Thornton

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors' for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Claire Scott

Claire Scott
Partner – Audit & Assurance

Sydney, 26 September 2019

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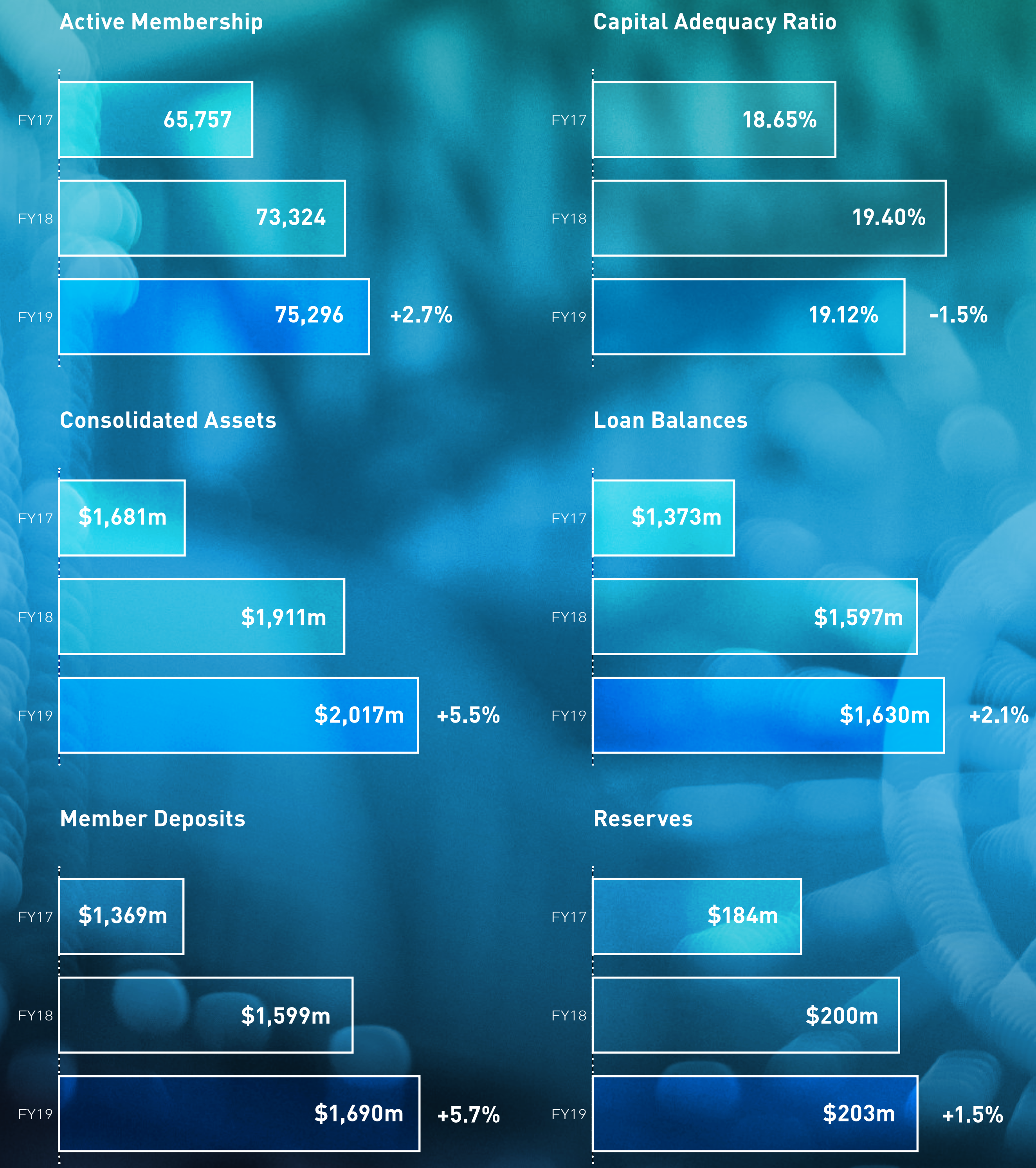
Key Statistics



Directors' Report

Directors' and Officers' Disclosures

The names of Directors and Officers in office at the date of this report or who held office during the course of the financial year are:

Gregory John McKenna
(Chairman from 29 January 2019, retired 26 July 2018, appointed on 29 January 2019)

Colin James Dyson

Raff Del Vecchio

Michael Fuller
(Joined the Board on 26 September)

David William Hudson

Clare Mariesa Mazzetti
(Retired 27 March 2019)

Robert John Redfern

Peter James Remfrey

Elizabeth Jean Swain

David Charles Walton
(Chairman until 29 January 2019, resigned 1 August 2019)

Sharon Waterhouse
(Joined the Board on 26 September)

Scott David Weber
(Retired 29 January 2019)

Tony Taylor[1]
(Chief Executive Officer and Company Secretary)

Craig Townsend
(Chief Financial Officer)

Directors' Meeting attendance

The number of meetings of Directors meetings or Committees held during the year and the number of meetings attended by each Director is as follows:

	BOARD		AUDIT COMMITTEE		RISK COMMITTEE		GOVERNANCE COMMITTEE	
	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended
Dyson	12	12	5	5	5	5		
Del Vecchio	11	12	5	5			4	4
Hudson	12	12					4	4
Mazzetti	7	8	2	4	2	4		
McKenna	5	5						
Redfern	11	12	5	5	5	5		
Remfrey	12	12	5	5	5	5	2	2
Swain	12	12	4	4	4	4		
Walton	12	12					4	4
Weber	7	7					2	2

Note: Directors Del Vecchio, Mazzetti and Redfern were granted a leave of absence for one Board meeting each.
Director Mazzetti was granted a leave of absence for one Board Audit Committee and one Board Risk Committee meeting.

1. Tony Taylor resigned as CEO on 4 October, 2019. Andrew Rasby became Acting CEO on 4 October, 2019.

Directors' benefits

Mr. Greg McKenna, retired from his Board appointed Director role on 26 July 2018. Greg worked as an independent consultant for the Bank cumulatively for 6 days in October 2018 (in FY19), and received a total of $9,000 plus 10% GST consulting fee.

Mr. David Walton retired from the board on 1 August 2019 after 18 years service. Upon retirement Mr Walton became entitled up to $272,592.72 in contractual retirement benefits.

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 33 of the financial report.

Indemnification and insurance

Insurance premiums have been paid to insure each of the Directors and officers of the Bank, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Bank. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Bank.

Principal activities

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

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

Operating results

The net profit of the Bank for the year after providing for income tax was $2,430,100 (2018 $8,438,683), with a return on average assets of 0.17%.

Total Assets increased during the year by $106M from $1,911M to $2,017M. The year's growth had no impact on the capital adequacy ratio which is 19.12%. At 19.12% the capital adequacy ratio remains well above the statutory minimum of 8%. The Bank loan portfolio grew by 2.06% during the year.

The Bank continues to be strong, to invest for the future and to position ourselves for growth. This is reflected in our integration of Heritage Isle following our merger. This has been achieved in a climate of challenging conditions in the Australian economy and banking market at present. Short term profits are therefore lower, than previous years, however, investment now positions us for greater success in the future. The results also reflect the continued support of members with borrowers driving the growth in loans under management to a new high for the bank while at the same time deposit growth was strong and has allowed the deposits and loans to be matched. This underlines the focus on members by the Board and Management and the offering of relevant products and services. Cost control remains a focus for the organisation in the upcoming year and the results as at June 30 2020 will be similar to those achieved in 2019.

Dividends

Dividends paid or declared by the Consolidated Group since the end of the previous financial year was $920,000 (2018 $825,000), paid to the shareholders of Chelsea Wealth Management Pty Ltd. Police Bank Ltd is the majority shareholder of Chelsea Wealth Management Pty Ltd. The dividend was 100% franked.

Non-audit services

Non audit services were provided by Grant Thornton (auditor of the Bank) amounting to $24,244.

Review of operations

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

Significant changes in state of affairs

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

Events occurring after the end of the reporting 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 the Bank in subsequent financial years.

Likely developments and results

No other matter, circumstances or likely developments in the operation has arisen since the end of the financial year that has significantly affect:

1. The operations of the Bank;
2. The results of those operations; or
3. The state of affairs of the Bank

in the financial years subsequent to this financial year. There are no likely developments in the entity's operations in the future financial years.

Environmental legislation

The Bank's operations are not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory in Australia.

Auditor's independence

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 24.

Rounding

The Bank is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest ($1,000, or in certain cases) to the nearest dollar.

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:

Mr. G McKenna
Chairman

Signed and dated 26th September 2019

Mr. P Remfrey
Deputy Chairman

Signed and dated 26th September 2019

Directors' Declaration

Acknowledgments

In concluding this Report, the Board wishes to acknowledge its appreciation of Andrew Rasby, Acting Chief Executive Officer, the Management and staff of the Bank without whose expertise and commitment the achievements of the past year would not have been achieved.

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:

Mr. G McKenna
Chairman

Signed and dated
26th September 2019

Mr. P Remfrey
Deputy Chairman

Signed and dated
26th September 2019

Police Bank Ltd Directors' Declaration

The Directors of Police Bank Ltd declare that: In the opinion of the directors of Police Bank Ltd:

(a.) the financial statements and notes of Police Bank Ltd and its controlled entities are in accordance with the Corporations Act 2001, including

- **(i.)** giving a true and a fair view of its financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- **(ii.)** complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(c.) there are reasonable grounds to believe that Police Bank Ltd and its controlled entities will be able to pay its debts as and when they become due and payable.

(d.) the financial statements comply with International Financial Reporting Standards, as stated in Note 1. Signed in accordance with a resolution of the directors.

Mr. G McKenna
Chairman

Signed and dated
26th September 2019

Mr. P Remfrey
Deputy Chairman

Signed and dated
26th September 2019

Consolidated statement of

Profit or loss and Other Comprehensive Income

For the year ended 30 June 2019

	NOTE(S)	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
		$	$	$	$
Interest Revenue	2a	80,441,819	74,557,634	80,441,819	74,557,634
Borrowing Costs	2b	(33,799,409)	(31,087,645)	(33,799,409)	(31,087,645)
Net Interest Revenue		46,642,410	43,469,989	46,642,410	43,469,989
Other revenue from ordinary activities	3	10,635,782	11,656,419	8,272,577	9,077,298
Impairment losses on Loan Receivables from Members	4a	(1,271,676)	(655,391)	(1,271,676)	(655,391)
Fees and Commission		(6,234,872)	(6,262,039)	(6,234,872)	(6,262,039)
General Administration					
- Personnel expenses		(25,577,826)	(20,346,724)	(24,379,396)	(18,875,514)
- Depreciation and Amortisation	4b	(2,007,342)	(2,268,900)	(1,623,730)	(1,525,523)
- Lease expenses		(942,890)	(1,106,142)	(930,918)	(961,770)
- Other administration expenses	4c	(12,223,878)	(7,931,865)	(11,642,859)	(7,551,101)
Other operating expenses		(4,658,432)	(4,446,040)	(4,658,432)	(4,446,040)
Operating Profit before Income Tax		4,361,276	12,109,307	4,173,104	12,269,909
Income Tax Expense	5	(1,931,176)	(3,670,624)	(1,555,168)	(3,296,265)
Operating Profit after Income Tax		**2,430,100**	**8,438,683**	**2,617,936**	**8,973,644**

Items that will not be reclassified subsequently to profit or loss

- Changes in the fair value of cash flow hedges		5,894	44,101	5,894	44,101
Total comprehensive income		**2,435,994**	**8,482,784**	**2,623,830**	**9,017,745**

Attributable to:

Non-Controlling Interests		181,875	166,075	-	-
Members of the parent entity		2,254,119	8,316,709	2,623,830	9,017,745
Total Comprehensive income		**2,435,994**	**8,482,784**	**2,623,830**	**9,017,745**

These accounts should be read in conjunction with the accompanying notes.

Consolidated statement of

Changes in Members' Equity

For the year ended 30 June 2019

	CAPITAL ACCOUNT	RETAINED PROFITS	TRANSFER OF ENGAGEMENTS RESERVE	RESERVE FOR CREDIT LOSSES	ASSET REVALUATION RESERVE	FVOCI RESERVE	OTHER RESERVES	TOTAL
	$	$	$	$	$	$	$	$
Balance 1 July 2017	**432,760**	**136,270,673**	**-**	**2,740,600**	**268,875**	**-**	**43,985,662**	**183,698,570**
Operating Profit for the year	-	8,438,683	-	-	-	-	-	8,438,683
Capital Contribution by non-controlling Interest	-	-	-	-	-	-	32,336	32,336
Profit attributable to non-controlling Interest	-	(166,075)	-	-	-	-	166,075	-
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	9,410	(9,410)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(139,400)	-	139,400	-	-	-	-
- Dividends Paid	-	-	-	-	-	-	(165,000)	(165,000)
Transfer of Engagement	-	-	7,036,662	326,345	834,859	-	-	8,197,866
Cash Flow Hedge Reserve	-	-	-	-	-	-	44,101	44,101
Balance 30 June 2018	**442,170**	**143,194,471**	**7,036,662**	**3,206,345**	**1,103,734**	**-**	**45,263,174**	**200,246,556**
Balance 1 July 2018	**442,170**	**143,194,471**	**7,036,662**	**3,206,345**	**1,103,734**	**-**	**45,263,174**	**200,246,556**
Changes on initial adoption of AASB9	-	(1,756,551)	-	-	-	2,562,711	-	806,160
Adjusted balance at 1 July 2018	**442,170**	**141,437,920**	**7,036,662**	**3,206,345**	**1,103,734**	**2,562,711**	**45,263,174**	**201,052,716**
Operating Profit for the year	-	2,430,100	-	-	-	-	-	2,430,100
Profit attributable to non-controlling Interest	-	(181,875)	-	-	-	-	181,875	-
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	7,710	(75,984)	-	-	-	-	-	(68,274)
- Dividends Paid	-	-	-	-	-	-	(184,000)	(184,000)
Revaluation of Assets	-	-	-	-	(46,402)	-	-	(46,402)
Cash Flow Hedge Reserve	-	-	-	-	-	-	5,894	5,894
Balance 30 June 2019	**449,880**	**142,410,161**	**7,036,662**	**3,206,345**	**1,057,332**	**2,562,711**	**46,466,943**	**203,190,034**

These accounts should be read in conjunction with the accompanying notes.

Consolidated Statement of
Changes in Members' Equity

For the year ended 30 June 2019

POLICE BANK	CAPITAL ACCOUNT	RETAINED PROFITS	TRANSFER OF ENGAGEMENTS RESERVE	RESERVE FOR CREDIT LOSSES	ASSET REVALUATION RESERVE	FVOCI RESERVE	OTHER RESERVES	TOTAL
	$	$	$	$	$	$	$	$
Balance 1 July 2017	**432,760**	**136,861,991**	**-**	**2,740,600**	**268,875**	**-**	**42,747,005**	**183,051,231**
Operating Profit for the year	-	8,973,644	-	-	-	-	-	8,973,644
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	9,410	(9,410)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(139,400)	-	139,400	-	-	-	-
- Transfer of Engagements	-	-	7,036,662	326,345	834,859	-	-	8,197,866
Cash Flow Hedge Reserve	-	-	-	-	-	-	44,101	44,101
Balance 30 June 2018	**442,170**	**144,486,825**	**7,036,662**	**3,206,345**	**1,103,734**	**-**	**43,991,106**	**200,266,842**
Balance 1 July 2018	**442,170**	**144,486,825**	**7,036,662**	**3,206,345**	**1,103,734**	**-**	**43,991,106**	**200,266,842**
Changes on initial adoption of AASB9	-	(1,756,551)	-	-	-	2,562,711	-	806,160
Adjusted balance at 1 July 2018	**442,170**	**142,730,274**	**7,036,662**	**3,206,345**	**1,103,734**	**2,562,711**	**43,991,106**	**201,073,002**
Operating Profit for the year	-	2,617,936	-	-	-	-	-	2,617,936
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	7,710	(75,984)	-	-	-	-	-	(68,274)
Revaluation of Assets	-	-	-	-	(46,402)	-	-	(46,402)
Cash Flow Hedge Reserve	-	-	-	-	-	-	5,894	5,894
Balance 30 June 2019	**449,880**	**144,072,226**	**7,036,662**	**3,206,345**	**1,057,332**	**2,562,711**	**45,197,000**	**203,582,156**

These accounts should be read in conjunction with the accompanying notes.

Consolidated Statement of
Financial Position

For the year ended 30 June 2019

		CONSOLIDATED		POLICE BANK	
	NOTE(S)	2019	2018	2019	2018
		$	$	$	$
Assets					
Cash and Liquid Assets	6	30,451,543	39,203,802	29,946,216	38,720,318
Receivables	7	3,974,958	4,366,008	3,680,354	4,088,750
Investment Securities	8	302,505,778	219,629,483	302,505,778	219,629,483
Loans and Advances	9 & 10	1,625,509,773	1,594,299,640	1,625,509,773	1,594,299,640
Investments and Assets FVOCI	11(a)	25,819,814	23,103,973	25,819,814	23,103,973
Investment in Subsidiary	11(b)	-	-	5,403,458	5,403,458
Non-current Assets Held for Sale	11(c)	-	1,497,575	-	1,497,575
Property Plant and Equipment	12	22,215,084	21,474,121	22,144,546	21,384,583
Intangible Assets	13	4,981,744	5,617,502	333,601	608,149
Taxation Assets	14	1,987,565	1,705,839	1,987,565	1,705,839
Total Assets		**2,017,446,259**	**1,910,897,943**	**2,017,331,105**	**1,910,441,768**
Liabilities					
Payables to other Financial Institutions	15	103,898,650	90,571,332	103,898,650	90,571,332
Deposits and Borrowings	16	1,690,525,857	1,599,182,177	1,690,525,857	1,599,182,177
Creditors and other Liabilities	17	14,364,603	16,865,108	14,172,586	16,712,408
Provisions	18	3,644,439	3,485,663	3,530,721	3,387,473
Taxation Liabilities	19	1,822,676	541,213	1,621,135	315,642
Derivative Fair Value		-	5,894	-	5,894
Total Liabilities		**1,814,256,225**	**1,710,651,387**	**1,813,748,949**	**1,710,174,926**
Net Assets		**203,190,034**	**200,246,556**	**203,582,156**	**200,266,842**
Member Funds					
Capital Account	20	449,880	442,170	449,880	442,170
Reserves		52,023,395	48,307,086	52,023,388	48,307,079
Retained Profits		149,446,823	150,198,807	151,108,888	151,523,487
Cash Flow Hedge Reserve		-	(5,894)	-	(5,894)
Non-Controlling Interest		1,269,936	1,304,387	-	-
Total Member Funds		**203,190,034**	**200,246,556**	**203,582,156**	**200,266,842**

These accounts should be read in conjunction with the accompanying notes.

Consolidated Statement of

Cash Flows

For the year ended 30 June 2019

	NOTE(S)	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
		$	$	$	$
Cash Flow From Operating Activities					
Interest Received – Loans		80,070,524	74,583,445	80,070,524	74,583,445
Other Income		11,422,517	11,241,985	8,340,658	8,002,864
Dividends Received		167,181	316,897	903,181	976,897
Interest Paid		(33,160,221)	(29,560,083)	(33,160,221)	(29,560,083)
Suppliers and Employees		(54,201,025)	(41,956,340)	(52,402,657)	(39,998,461)
Taxes Paid		(2,134,359)	(4,294,359)	(1,760,000)	(3,920,000)
Net Cash from Revenue Activities	**37c**	**2,164,617**	**10,331,545**	**1,991,485**	**10,084,662**
Inflows from Other Operating Activities					
Net Movement in Member Loans		(33,060,373)	(143,638,929)	(33,060,373)	(143,638,929)
Net Movement in Member Shares		(59,238)	(12,495)	(59,238)	(12,495)
Net Movement in Deposits		91,402,918	135,161,438	91,402,918	135,161,438
Net Cash from Operating Activities		**60,447,924**	**1,841,559**	**60,274,792**	**1,594,676**
Cash Flows from Investing Activities					
Investment Redemption		608,651,619	669,604,131	608,651,619	669,604,131
Proceeds from Sale of Fixed Assets		1,664,328	197,018	1,628,216	171,518
Net Assets on transfer of engagements		-	4,384,738	-	4,384,738
Purchase of Investments		(690,582,740)	(662,882,397)	(690,582,740)	(662,914,731)
Purchase of Fixed Assets		(2,076,708)	(1,495,273)	(2,073,307)	(1,412,475)
Purchase of Customer Contracts		-	(161,677)	-	(129,342)
Net Cash Used in Investing Activities		**(82,343,501)**	**9,646,540**	**(82,376,212)**	**9,703,839**
Cash Flow from Financing Activities					
Net Movement in Borrowings		13,327,318	(17,589,025)	13,327,318	(17,589,025)
Dividend Paid		(184,000)	(165,000)	-	-
Net Cash Provided by Financing Activities		**13,143,318**	**(17,754,025)**	**13,327,318**	**(17,589,025)**
Net Increase (Decrease) in Cash		**(8,752,259)**	**(6,265,926)**	**(8,774,102)**	**(6,290,510)**
Cash at Beginning of Year		39,203,802	45,469,728	38,720,318	45,010,828
Cash at End of Reporting		30,451,543	39,203,802	29,946,216	38,720,318
Reconciliation of Cash at End of Reporting Period	37a				
Cash		4,890,745	15,198,187	4,385,419	14,714,704
Deposits at Call		25,560,798	24,005,615	25,560,797	24,005,614
Total		**30,451,543**	**39,203,802**	**29,946,216**	**38,720,318**

These accounts should be read in conjunction with the accompanying notes.

Notes to the Accounts

For the year ended 30 June 2019

1. Nature of Operations

This financial report is prepared for Police Bank Ltd and subsidiaries' for the year ended 30 June 2019. The consolidated general purpose financial statements have 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 (AASB). Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Police Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

Police Bank Ltd is a public company incorporated and domiciled in Australia. The address of its principal place of business is 25 Pelican Street, Surry Hills NSW 2010.

The report was authorised for issue on 26th September 2019 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

The accounting policies are consistent with the prior year unless otherwise stated.

REPO securitisation trust consolidation

The Bank has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements. The Bank continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

(i.) The trust meets the definition of a controlled entity and,

(ii.) As prescribed under the accounting standards, since the Bank has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of the Bank and not derecognised.

Changes in significant accounting policies

New standards applicable for the current year

AASB 15 Revenue from contracts with customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2018.

The adoption of AASB 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities of the Bank.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the Bank has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

AASB 9 also contains new requirements on the application of hedge accounting. The new hedge accounting looks to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The adoption of AASB 9 has impacted the following areas:

Classification and measurement of the Bank's financial assets

AASB 9 allows for three classification categories for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVPL). Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged. Refer table on next page for a reconciliation of changes in classification and measurement of financial instruments on adoption of AASB 9.

Impairment of the Bank's financial assets

The Bank's financial assets carried at amortised cost and those carried at FVOCI are subject to AASB 9's new three-stage expected credit loss model. The Bank measures loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12 months ECL.

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

An impairment allowance of $1,756,551 was included on 1 July 2018 in respect of loans and advances to members. No impairment allowance was recognised for other investments. Further detail of how the Bank has applied the ECL policy is included in Note 10.

Hedge accounting

The Bank does not carry any assets or liabilities in this category.

	MEASUREMENT CATEGORY		CARRYING AMOUNT		
	ORIGINAL AASB 139 CATEGORY	NEW AASB 9 CATEGORY	CLOSING BALANCE 30 JUN 2018 (AASB 139)	ADOPTION OF AASB 9	OPENING BALANCE 1 JUL 2018 (AASB 9)
Assets					
Loans and advances to members	Loans and receivables	Amortised cost	1,594,299,640	(1,756,551)	1,592,543,089
Receivable	Receivables	Amortised cost	4,366,008	-	4,366,008
Investment securities – CUSCAL Share / TAS	Available for sale	FVOCI	3,928,106	2,562,711	6,490,817
Cash	Amortised cost	Amortised cost	39,203,802	-	39,203,802
Bank Bills and Certificate of Deposit	Held to Maturity	Amortised cost	85,462,984	-	85,462,984
Floating Rate Notes / Term Deposits	Held to Maturity	Amortised cost	87,266,499	-	87,266,499
Subordinated Debt	Held to Maturity	Amortised cost	1,000,000	-	1,000,000
Term Deposits	Held to Maturity	Amortised cost	45,900,000	-	45,900,000
Total financial assets			**1,861,427,039**	**806,160**	**1,862,233,199**
Liabilities					
Negotiable Certificate of Deposit	Amortised cost	Amortised cost	75,571,332	-	75,571,332
Medium Term Note	Amortised cost	Amortised cost	15,000,000	-	15,000,000
Deposits from members	Amortised cost	Amortised cost	1,598,841,999	-	1,598,841,999
Withdrawable Shares	Amortised cost	Amortised cost	340,178	-	340,178
Total financial liabilities			**1,689,753,509**	**-**	**1,689,753,509**

FINANCIAL STATEMENTS – NOTES TO THE ACCOUNTS

Significant Accounting Policies

a. Financial assets and financial liabilities

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

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

Policy applicable from 1 July 2018

Classification of financial assets

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

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

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables, which is presented within other expenses.

Classifications are determined by both:

- the entity's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets.

Subsequent measurement of financial assets

Financial assets at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, trade receivables fall into this category of financial instruments as well as bonds that were previously classified as held to maturity under AASB 139.

Loans to Members

Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVPL or designated as at FVPL; these are measured at fair value with changes recognized immediately in profit or loss; and
- finance lease receivables in which the Bank was the lessor.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

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

(i.) **Interest on loans – Method of calculation**
Interest charged by the Bank on Members' loans funded before the introduction of the Consumer Credit Code on 1st November 1996, other than Overdrafts, are calculated on the basis of charging interest in the initial month from the date the loan is advanced, and thereafter on the first day of the month on the opening balance. On completion of a loan, a full month's interest is charged on the opening balance for the month in which the loan is finalised. For loans funded after 1st November 1996, the interest is calculated on the basis of the daily balance outstanding and is charged in arrears on the last day of each month.

(ii.) **Non-accrual loan interest**
While still legally recoverable, interest is not brought to account as income when the Bank is informed that the Member has deceased, or on impaired loans where recovery of the debt is considered unlikely.

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.

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.

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.

Net gains and losses
Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

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

Fair Value through Other Comprehensive Income (FVOCI)
Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital. This category includes unlisted equity securities – CUSCAL Ltd – that were previously classified as 'available for sale' under AASB 139.

Reclassifications

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

Policy applicable before 1 July 2018

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

- loans and receivables
- financial assets at fair value through profit or loss (FVPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

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

All financial assets except for those at FVPL 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 finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Banks, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Bank.

Financial assets at FVPL
Financial assets at FVPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. The Bank currently holds Term deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes, and Bank accepted Bills of Exchange 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 investments 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.

Available-for-sale (AFS) financial assets
AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS financial assets, and the equity investment in CUSCAL Ltd, and Transaction Solutions Ltd are included in this category.

The equity investment in CUSCAL Ltd and Transaction Solutions Ltd are measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the 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 calculated using the effective interest method and dividends are recognised in profit or loss within 'finance 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.

Loans to Members

Basis of recognition
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 profit or loss over the period of the loans using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Bank at the reporting 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.

b. Loan impairment

Policy applicable after 1 July 2018

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the 'expected credit loss model' (ECL). Instruments within the scope of the new requirements include loans and advances and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (performing loans) ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

''Stage 3' would cover financial assets that have objective evidence of impairment (loans in default) at the reporting date.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

Measurement of ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

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

- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The critical assumptions used in the calculation are as set out in Note 10. Note [22] details the credit risk management approach for loans.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

- Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 July 2018

Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

The APRA Prudential Standards require 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.

Reserve for credit losses

- In addition to the above specific provision, the board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:
- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

Classification and subsequent measurement of financial liabilities

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

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss (FVTPL), that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives 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 designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately 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 or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

c. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to profit or loss. Revaluation decreases are debited to profit or loss unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

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

- Building 2.50%
- Office Equipment 20.00%
- EDP Equipment 37.50%
- Motor Vehicles 25.00%
- EDP Software 37.50%
- Office Furniture and Fittings 5% – 20%
- Leasehold Improvements 2.5% – 25%

Assets less than $5,000 are not capitalised.

d. Member deposits

Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the reporting date.

Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

e. 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 method.

f. Provision for employee benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Bank does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

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

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

Provision for long service leave is on a pro-rata basis from commencement of employment with the 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 the reporting date. Annual leave is reflected as part of the sundry creditors and accruals.

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

g. 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 profit or loss on a straight-line basis over the period of the lease.

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at 5%.

Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

h. Income tax

The income tax expense shown in profit or loss is based on the profit before income tax adjusted for any non-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 assessed at 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 the 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.

i. Intangible assets

Recognition of other intangible assets

Brand names and customer list

Brand names and customer lists acquired in a business combination that qualify for separate recognition are recognised as intangible assets at their fair values.

Internally developed software

Expenditure on the research phase of projects to develop new customised software for IT and telecommunication systems is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Bank intends to and has sufficient resources to complete the project
- the Bank has the ability to use or sell the software; and
- the software will generate probable future economic benefits

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Employee (excluding Director) directly attributable costs include software incurred costs for development along with an appropriate portion of relevant overheads and borrowing costs.

Subsequent measurement

All intangible assets, including internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in Note 1 (j). The following useful lives are applied:

- software: 3-5 years
- customer lists: 4-6 years

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing as described in Note 1 (j).

Amortisation has been included within depreciation and amortisation of non-financial assets.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

j. Impairment of assets

At each reporting date the Bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined, and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

k. Goods and services tax (GST)

As a financial institution the 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 goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax 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. 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 Australian Taxation Office are classified as operating cash flows.

l. 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.

m. Principles of consolidation

The consolidated entity's financial statements comprise consolidated accounts of the Bank and its controlled entities. The effects of intercompany balances, transactions and unrealised profits arising between the controlled entities and the Bank are eliminated on consolidation.

n. Lease receivables

Leases are classified as either finance leases or operating leases. Under finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the leasee. Under operating lease lessor retains substantially all the risks and rewards of ownership of the leased assets.

As a lessor, the assets the Bank has leased out under finance leases are recognised as loans and advances on the Balance sheet at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic return on this net investments and is recognised within interest income in the income statement.

The assets the Bank has leased out under operating leases continue to be recognised on the Balance Sheet as property and equipment and are depreciated accordingly. Operating lease revenue is recognised in the income statement on a straight line basis over the lease term.

o. Business combinations

The Bank applies the acquisition method in accounting for business combinations.

Under the Financial Sector (Transfers of Business) Act 1999, all the assets and liabilities of the transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

Police Bank recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquirer's financial statements prior to the acquisition. Assets acquired, and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill (if applicable) is stated after separate recognition of any identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquire and (c) acquisition-date fair value of any existing equity interest in the acquire, over the acquisition-date fair values of identifiable net assets.

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity for a mutual organisation (as prescribed by AASB 3 Guidance B47)

Acquisition costs are expensed as incurred.

p. Non-current assets held for sale

Non-current assets are classified as held for sale if they are available for immediate sale in their present condition subject only to the customary sales terms of such assets and their sale is considered highly probable. For a sale to be highly probable, management must be committed to a sales plan and actively looking for a buyer. Furthermore, the assets must be actively marketed at a reasonable sales price in relation to their current fair value and the sale should be expected to be completed within one year.

Non-current assets which meet the criteria held for sale classification are measured at the lower of their carrying amount and fair value less costs to sell and are presented within Non-current assets in the balance sheet. Impairment allowances on non-current asset available for sale are recognised in the income statement for the period in which the allowances were made. Depreciation is not charged on assets classified to this category.

q. Accounting estimates and adjustments

Management have made judgements when applying the Bank's accounting policies with respect to:

» De-Recognition of loans assigned to a special purpose vehicle used for securitisation purposes – (refer Note 36)

Police Bank uses various models and assumptions in measuring fair value of financial assets.(e.g. CUSCAL and TAS Shares). Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of price risk and factors such as sales evidence, dividend history price earning multiple and overall market conditions.

Management have made critical accounting estimates when applying the Bank's accounting policies with respect to the measurement of expected credit loss (ECL) allowance – (refer Note 10). In the current year, the approach to estimation of impairment losses has been revised following adoption of AASB 9 effective 1 July 2018. Key areas of judgement to be considered under the new standard include:

» Recognition of credit losses based on "Stage 1" 12 month expected losses and "Stage 2" and "Stage 3" lifetime expected credit losses.

» Determining criteria for significant increase in credit risk: An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

» Choosing appropriate models and assumptions for the measurement of ECL;

» Establishing groups of similar financial assets for the purposes of measuring ECL: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

r. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting period. The Bank's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Bank have not been reported.

AASB REFERENCE	NATURE OF CHANGE	APPLICATION DATE	IMPACT ON INITIAL APPLICATION
AASB 16 *Leases Replaces* AASB 117	AASB 16: replaces AASB 117 Leases and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and; requires new and different disclosures about leases.	Periods beginning on or after 1 January 2019	When this Standard is first adopted on 1 July 2019, a right of use asset with an amount to be determined and will be recognised on the assets and liabilities sides of the balance sheet.

2. Statement of Profit or Loss and Other Comprehensive Income

a. Analysis of Interest Revenue

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Category of Interest Bearing Assets				
Cash – Deposit	495,438	417,078	495,438	417,078
Receivables from Financial Institutions	7,630,199	7,086,128	7,630,199	7,086,128
Loans and Advances	72,316,182	67,054,428	72,316,182	67,054,428
Total	**80,441,819**	**74,557,634**	**80,441,819**	**74,557,634**

b. Analysis of Interest Expense

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Category of Interest Bearing Liabilities				
Member Deposits	31,021,314	27,937,519	31,021,314	27,937,519
Overdraft	3,626	3,188	3,626	3,188
Others	2,774,469	3,146,938	2,774,469	3,146,938
Total	**33,799,409**	**31,087,645**	**33,799,409**	**31,087,645**

FINANCIAL STATEMENTS – NOTES TO THE ACCOUNTS

3. Profit from Ordinary Activities – Revenue

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Dividend Revenue	167,181	316,897	903,181	976,897
Fee and Commission Revenue				
- Loan Fee Income	1,580,694	1,726,097	1,580,694	1,726,097
- Other Fee Income	2,524,014	2,326,768	2,524,014	2,326,768
- Insurance Commissions	2,475,168	3,286,378	2,475,168	3,286,378
- Other Commissions	3,584,295	3,789,350	485,090	550,229
Bad Debts Recovered	107,705	119,985	107,705	119,985
Total Revenue from Ordinary Activities	**10,439,057**	**11,565,475**	**8,075,852**	**8,986,354**
Other Revenue				
- Other	196,725	90,944	196,725	90,944
Total Revenue from Other Activities	**196,725**	**90,944**	**196,725**	**90,944**
Total Revenue from Ordinary and Other Activities	**10,635,782**	**11,656,419**	**8,272,577**	**9,077,298**

4. Profit from Ordinary Activities – Expenses

a. Loan Impairment Losses

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Increase/(decrease) in provision for impairment	410,270	42,186	410,270	42,186
Bad Debts written off directly against profit	861,406	613,205	861,406	613,205
Total Impairment Losses	**1,271,676**	**655,391**	**1,271,676**	**655,391**

b. Other Prescribed Expense Disclosures

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Auditor's Remuneration				
- Audit Fees – Grant Thornton	229,251	198,842	229,251	198,842
- Other Services	33,144	24,739	24,244	15,839
Total	**262,395**	**223,581**	**253,495**	**214,681**
Profit /(loss) on disposal of assets				
- Property, Plant, Equipment and Leasehold Improvements	(232,319)	(81,876)	(232,319)	(57,690)
Net movement in provision for Depreciation				
- Buildings	525,852	360,050	525,852	360,050
- Plant and Equipment	412,534	751,677	392,058	721,691
- Leasehold Improvements	475,511	366,713	473,585	358,656
- Intangible Assets	593,445	790,460	232,235	85,126
Total	**2,007,342**	**2,268,900**	**1,623,730**	**1,525,523**
Other Expense				
- Supervision Levy	94,667	84,443	94,667	84,443
- Superannuation	2,298,570	1,849,753	2,180,703	1,702,109
Total	**2,393,237**	**1,934,196**	**2,275,370**	**1,786,552**

c. Other Administration Expenses

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
- Integration Costs	2,075,752	1,077,853	2,075,752	1,077,853
- Marketing	2,312,429	1,512,500	2,312,429	1,512,500
- Computer Expenses	401,722	807,686	401,722	807,686
- Loan Administration	414,840	19,434	414,840	19,434
- Office Occupancy	948,252	878,624	948,252	878,624
- General Administration	6,070,883	3,635,768	5,489,864	3,255,004
Total	**12,223,878**	**7,931,865**	**11,642,859**	**7,551,101**

5. Income Tax

a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the account as follows

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Prima facie tax payable on operating profit before income tax at 30%	1,308,385	3,632,793	1,251,931	3,680,973
Non-deductible expenditure	175,710	81,281	111,542	81,281
Building depreciation	157,755	106,640	157,756	106,640
Amortisation	131,161	211,600	-	-
Imputation credit	116,123	125,134	116,123	125,134
Rebate on fully franked dividends	(189,077)	(219,112)	(387,077)	(417,112)
Deduction not allowed in accounting expenses	(73,738)	12,939	-	-
Under/Over provision of Income Tax	304,857	(280,651)	304,893	(280,651)
Total	**1,931,176**	**3,670,624**	**1,555,168**	**3,296,265**

b. Income tax expense comprises amounts

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Provision for income tax attributable to current year taxable income	(464,059)	3,717,302	(840,103)	3,342,943
Movement in future income tax benefit	281,726	231,122	281,726	231,122
Movement in deferred tax liability	1,808,652	2,851	1,808,652	2,851
Under/Over provision of Income Tax	304,857	(280,651)	304,893	(280,651)
Total	**1,931,176**	**3,670,624**	**1,555,168**	**3,296,265**

c. Franking Credits

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Franking credits held by the Bank after adjusting for franking credits that will arise from payment of income tax payable as at 30 June.	**74,176,797**	**70,845,134**	**73,971,298**	**70,637,521**

6. Cash and Liquid Assets

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Cash on hand	2,236,028	3,356,841	1,730,702	2,873,358
Deposits at call	25,509,359	24,005,615	25,509,358	24,005,614
Cash at Bank	2,654,717	11,789,907	2,654,717	11,789,907
Security Deposits	51,439	51,439	51,439	51,439
Total	**30,451,543**	**39,203,802**	**29,946,216**	**38,720,318**

7. Receivables

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Interest Receivable on deposits with other Financial Institutions	1,138,642	767,347	1,138,642	767,347
Prepayments	985,649	794,078	985,649	794,078
Sundry Debtors	1,850,667	2,804,583	1,556,063	2,527,325
Total	**3,974,958**	**4,366,008**	**3,680,354**	**4,088,750**

8. Investment Securities

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Bank Bills and Certificate of Deposits	101,274,904	85,462,984	101,274,904	85,462,984
Floating Rate Notes	98,450,874	87,266,499	98,450,874	87,266,499
Subordinated Debt	1,000,000	1,000,000	1,000,000	1,000,000
Term Deposits	101,780,000	45,900,000	101,780,000	45,900,000
Total	**302,505,778**	**219,629,483**	**302,505,778**	**219,629,483**

Subordinated Debt – On 29th August 2014 the Bank invested in subordinated notes issued by ME Bank. The rights of the noteholders are subordinated to the claims of all creditors (including depositors) of ME Bank. The notes have quarterly interest payable in arrears with a final maturity date of 29th August 2024. The subordinated debt was redeemed on the 29th August 2019.

9. Loans and Advances

a. Amount Due comprises

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Overdrafts and Revolving Credit Loans	37,579,780	38,723,793	37,579,780	38,723,793
Term Loans	1,592,434,618	1,558,230,232	1,592,434,618	1,558,230,232
	1,630,014,398	1,596,954,025	1,630,014,398	1,596,954,025
Less: Provision for Impaired Loans	(2,767,206)	(585,457)	(2,767,206)	(585,457)
Less: Unamortised Loan Origination Fees	(1,737,089)	(2,061,399)	(1,737,089)	(2,061,399)
Plus: Amortised Loan Transaction Costs	(330)	(7,529)	(330)	(7,529)
Net Loans and Advances	**1,625,509,773**	**1,594,299,640**	**1,625,509,773**	**1,594,299,640**

b. Credit Quality – Security held against Loans

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Secured by Mortgage	1,492,959,844	1,440,907,099	1,492,959,844	1,440,907,099
Secured Other	56,980,909	66,330,782	56,980,909	66,330,782
Unsecured	80,073,645	89,716,144	80,073,645	89,716,144
Total	**1,630,014,398**	**1,596,954,025**	**1,630,014,398**	**1,596,954,025**

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

Security held as mortgage against real estate is on the basis of:

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Security held as a mortgage against real estate is on the basis of:				
- loan to valuation ratio of less than 80%;	1,147,271,678	1,105,484,524	1,147,271,678	1,105,484,524
- loan to valuation ratio of more than 80% but mortgage insured; and	316,244,259	286,815,450	316,244,259	286,815,450
- loan to valuation ratio of more than 80% and not mortgage insured.	29,443,907	48,607,125	29,443,907	48,607,125
Total	**1,492,959,844**	**1,440,907,099**	**1,492,959,844**	**1,440,907,099**

c. Concentration of Loans

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
(i) Individual loans which exceed 10% of Member Funds in aggregate amount to $0.00 (2018 $0.00)	-	-	-	-
(ii) Loan purpose dissection:				
- Residential	1,293,735,111	1,236,170,636	1,293,735,111	1,236,170,636
- Personal	122,587,824	143,597,156	122,587,824	143,597,156
- Commercial*	205,725,191	206,645,678	205,725,191	206,645,678
- Finance Leases	7,966,272	10,540,555	7,966,272	10,540,555
Total	**1,630,014,398**	**1,596,954,025**	**1,630,014,398**	**1,596,954,025**

*These are primarily loans to individuals secured by residential mortgage.

GEOGRAPHICAL AREAS	HOUSING	PERSONAL	CREDIT CARD	OVERDRAFT	BUSINESS	TOTAL
	$	$	$	$	$	$
Sydney City	289,281,516	17,512,780	5,609,901	1,599,373	115,298	**314,118,868**
Western Suburbs	239,828,316	12,338,018	4,148,215	946,245	-	**257,260,794**
Australian Capital Territory	213,803,395	12,417,617	4,503,271	1,322,158	35,505	**232,081,946**
Illawarra	191,780,244	7,728,547	2,258,034	765,857	34,191	**202,566,873**
Hunter Valley	140,869,066	7,541,930	1,967,425	910,939	69,622	**151,358,982**
NSW North Coast	94,946,870	6,951,668	1,692,381	950,031	-	**104,540,950**
Tasmania	78,587,101	4,124,941	201,123	932,170	1,615,429	**85,460,764**
NSW Central Coast	65,686,820	5,791,858	1,235,131	374,652	-	**73,088,461**
Other States	67,218,273	7,753,648	749,326	853,154	-	**76,574,401**
NSW Country	47,025,869	4,593,841	783,377	274,226	-	**52,677,313**
Blue Mountains	42,628,906	1,595,156	448,190	166,113	-	**44,838,365**
NSW South Coast	25,933,881	947,141	374,246	225,141	-	**27,480,409**
Total	**1,497,590,257**	**89,297,145**	**23,970,620**	**9,320,059**	**1,870,045**	**1,622,048,126**

10. Provision on Impaired Loans

a. Amounts arising from ECL

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

			2019			2018
	CARRYING VALUE	ECL ALLOWANCE	CARRYING VALUE	CARRYING VALUE	ECL ALLOWANCE	CARRYING VALUE
	$	$	$	$	$	$
Mortgages	1,293,735,111	897,954	1,292,837,157	1,236,170,541	722,750	1,235,447,791
Personal	92,997,532	1,398,336	91,599,196	112,197,544	1,202,119	110,995,425
Credit Cards	21,122,559	307,985	20,814,574	22,671,183	278,225	22,392,958
Overdrafts	8,467,733	162,931	8,304,802	8,728,524	138,914	8,589,610
Finance Leases	7,966,272	-	7,966,272	10,540,555	-	10,540,555
Total to Natural Persons	1,424,289,207	2,767,206	1,421,522,001	1,390,308,347	2,342,008	1,387,966,339
Corporate Borrowers	205,725,191	-	205,725,191	206,645,678	-	206,645,678
Total	**1,630,014,398**	**2,767,206**	**1,627,247,192**	**1,596,954,025**	**2,342,008**	**1,594,612,017**

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

					2019	2018
	STAGE 1 12 MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	PURCHASED CREDIT IMPAIRED	TOTAL	TOTAL
	$	$	$	$	$	$
Mortgages	370,275	242,825	284,854	-	897,954	722,750
Personal	332,887	248,907	816,542	-	1,398,336	1,202,119
Credit Cards	87,645	28,173	192,167	-	307,985	278,225
Overdrafts	41,091	28,132	93,708	-	162,931	138,914
Finance Leases	-	-	-	-	-	-
Total to Natural Persons	831,898	548,037	1,387,271	-	2,767,206	2,342,008
Corporate Borrowers	-	-	-	-	-	-
Less Allowance	**-**	**-**	**-**	**-**	**-**	**0**
Total	**831,898**	**548,037**	**1,387,271**	**-**	**2,767,206**	**2,342,008**

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

	STAGE 1 12 MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	PURCHASED CREDIT IMPAIRED	TOTAL	TOTAL
	2019	2019	2019	2019	2019	2018
	$	$	$	$	$	$
Loans to members						
Balance at 1 July per AASB 139	-	-	-	-	585,457	-
Adjustment on initial application of AASB 9	-	-	-	-	1,756,551	-
Balance at 1 July per AASB 9	878,548	559,841	903,619	-	2,342,008	-
Changes in the loss allowance						
Transfer to stage 1	441,818	-	-	-	441,818	-
Transfer to stage 2	(439,034)	1,437,975	-	-	998,941	-
Transfer to stage 3	-	(1,332,928)	1,147,706	-	(185,222)	-
Net movement due to change in credit risk	-	-	-	-	-	585,457
Write-offs	(49,434)	(116,851)	(664,054)	-	(830,339)	-
Recoveries of amounts previously written off	-	-	-	-	-	-
Changes in models/risk Parameters	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-	-
Balance at 30 June	**831,898**	**548,037**	**1,387,271**	**-**	**2,767,206**	**585,457**

Key assumptions in determining the ECL

Measurement of ECL

The key inputs into the measurement of ECL include the following variables:

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

These parameters are generally derived from internal analysis, management judgements and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are calculated based on arrears over 90 days and other loans and facilities where the likelihood of future payments is low. The definition of default is consistent with the definition of default used for internal credit risk management and regulatory reporting purposes. Instruments which are 90 days past due are generally considered to be in default.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Where appropriate, in calculating the ECL, future cash flows are discounted at the original effective interest rate of the exposure.

Grouping of similar assets

Since the loans are homogeneous in terms of borrower type and contractual repayment terms, the portfolio is currently managed through the dissection of the portfolio arrears reports. The Bank has grouped exposures by type on the basis of shared risk characteristics that include:

» instrument type;
» credit risk grading;
» LVR ratio for retail mortgages;
» date of initial recognition (vintage);
» remaining term to maturity;
» geographic location of the borrower.

The Bank has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

» Residential owner occupied mortgages
» Residential investment mortgages
» Commercial loans
» Personal loans
» Other – representing credit cards, overdrafts.

Stage 3 of the impairment model will be assessed on an individual basis.

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

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Significant increase in credit risk

The Bank is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the Bank's current model

» Loans more than 30 days past due
» Loans with approved hardship or modified terms

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert judgement, relevant external factors and including forward-looking information.

Incorporation of forward-looking information

The approach to determining the ECL includes forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Given the lack of loss experience by the Bank and across the wider industry, more emphasis has been applied to the historical data available as opposed to forward looking information. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The Bank considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. Periodically the Bank carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

b. Impaired financial assets – Comparative information under AASB 139

The following table show an analysis of loans that are impaired or potentially impaired by class. In the note below:

» Carrying Value is the amount of the statement of financial position
» Impaired loans value is the 'on statement of financial position' loan balances which are past due by 90 days or more
» Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

2018

	CARRYING VALUE	VALUE OF IMPAIRED LOANS	PROVISION FOR IMPAIRMENT
	$	$	$
Mortgages	6,940,150	1,624,075	-
Personal	1,145,312	451,057	322,338
Credit Cards	357,852	138,558	138,031
Overdrafts	391,991	107,255	107,451
Finance Leases	44,093	44,093	17,637
Total to Natural Persons	8,879,398	2,365,038	585,457
Corporate Borrowers	-	-	-
Total	**8,879,398**	**2,365,038**	**585,457**

The following table show loans with repayments past due but not regarded as impaired

There are loans with a value of $3,573,465 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due. It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

Loans with repayments past due but not impaired are in arrears as follows:

Loans members

2018

	1-3 MONTHS	3-6 MONTHS	6-12 MONTHS	> 1 YEAR	TOTAL
	$	$	$	$	$
Mortgage secured	893,335	219,042	113,434	549,631	1,775,442
Other loans	117,120	7,536	91,299	30,629	246,584
Personal loans	637,184	105,186	73,268	71,912	887,550
Credit cards	219,294	84,916	53,642	-	357,852
Overdrafts	218,268	47,174	26,496	14,099	306,037
Total	**2,085,201**	**463,854**	**358,139**	**666,271**	**3,573,465**

Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report the Bank has determined the likely impairment loss on loans which have not maintained the loan 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, the 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	0
90 days to 180 days	40
181 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

11(a). Investments and Assets FVOCI

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
CUSCAL Member Shares (i)	7,583,532	3,922,517	7,583,532	3,922,517
TransAction Solutions Pty Ltd (i) – Class A shares –	5,589	5,589	5,589	5,589
PCU 2009-1 Trust (ii)	18,230,693	19,175,867	18,230,693	19,175,867
Total	**25,819,814**	**23,103,973**	**25,819,814**	**23,103,973**

(i.) CUSCAL Limited and TransAction Solutions Pty Ltd

This company supplies services to the member organisations which are all Mutual Banks and other mutual ADIs. At 1 July 2018, the Bank designated its investment in CUSCAL equity securities as at FVOCI. In FY 2018, these investments were classified as available-for-sale and measured at cost. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of CUSCAL record net tangible asset backing of these shares exceeding their cost value. Management has determined that value of $1.16 per share is a reasonable approximation of fair value based on the likely value available on a sale, taking into consideration factors such as sales evidence, dividend history and overall market conditions.

The Bank is not intending to dispose of these shares.

(ii.) PCU 2009-1 Trust

The PCU 2009-1 Trust is a special purpose vehicle that issues securities under an internal securitisation program for the purpose of contingency liquidity management. The Trust is comprised of assets including cash and term deposits. The Bank's risk management has been strengthened with the implementation of the 're-purchase' facility with the Reserve Bank of Australia providing greater access to funds and a higher level of security for the organisation.

11(b). Investment in Subsidiary

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Investment in Subsidiary	-	-	5,403,458	5,403,458
Total	**-**	**-**	**5,403,458**	**5,403,458**

11(c). Non-current Assets Held for Sale

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Land and buildings	-	1,497,575	-	1,497,575
Total	**-**	**1,497,575**	**-**	**1,497,575**

12. Property, Plant and Equipment

a. Fixed assets

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Land at cost	5,934,354	5,386,053	5,934,354	5,386,053
Buildings at cost	11,642,649	12,190,950	11,642,649	12,190,950
Less: Provisions for depreciation	(1,379,282)	(1,028,454)	(1,379,282)	(1,028,454)
Total Buildings	**10,263,367**	**11,162,496**	**10,263,367**	**11,162,496**
Total Land and Buildings	**16,197,721**	**16,548,549**	**16,197,721**	**16,548,549**
Plant and Equipment at cost	8,830,098	9,143,614	8,680,621	8,994,137
Less: Provision for depreciation	(4,562,694)	(4,949,719)	(4,479,146)	(4,883,245)
Total Plant and Equipment	**4,267,404**	**4,193,895**	**4,201,475**	**4,110,892**
Capitalised leasehold improvements at cost	4,053,127	3,094,269	3,989,973	3,031,115
Less: Provision for amortisation	(2,303,168)	(2,362,592)	(2,244,623)	(2,305,973)
Total Capitalised Leasehold Improvements	**1,749,959**	**731,677**	**1,745,350**	**725,142**
Closing Balance 30 June	**22,215,084**	**21,474,121**	**22,144,546**	**21,384,583**

b. Movement in the asset balances during the year were:

	2019 PROPERTY	2019 PLANT & EQUIPMENT	2019 LEASEHOLD IMPROVEMENTS	2018 PROPERTY	2018 PLANT & EQUIPMENT	2018 LEASEHOLD IMPROVEMENTS
	$	$	$	$	$	$
Opening Balance 1 July	**16,548,549**	**4,193,895**	**731,677**	**16,961,173**	**4,595,409**	**634,509**
Add: Purchases in the year	-	539,997	1,493,793	-	496,896	488,067
Add: Transfer of business from merger	-	-	-	1,445,001	107,975	-
Less: Transfer from assets held for sale	1,497,575	-	-	(1,497,575)	-	-
Less: Disposal of assets	(1,582,622)	(81,706)	-	-	(197,018)	-
Gain/(Loss) on sale	260,071	27,752	-	-	(57,690)	(24,186)
Depreciation charge	(525,852)	(412,534)	(475,511)	(360,050)	(751,677)	(366,713)
Closing Balance 30 June	**16,197,721**	**4,267,404**	**1,749,959**	**16,548,549**	**4,193,895**	**731,677**

13. Intangible Assets

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Computer Software	820,356	981,136	820,356	981,136
Less: Provision for Amortisation	(486,755)	(372,987)	(486,755)	(372,987)
Acquired Customer Relationships	6,527,128	6,527,128	-	-
Less: Provision for Amortisation	(1,878,985)	(1,517,775)	-	-
Total	**4,981,744**	**5,617,502**	**333,601**	**608,149**

Movement in the intangible asset balances during the year were:

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
Opening Balance 1 July	5,617,502	5,674,147	608,149	121,137
Add: Purchases in the year	42,917	510,310	42,917	510,310
Add: Transfer of business from merger	-	61,828	-	61,828
Add: Purchase of Customer Contracts	-	161,677	-	-
Less: Disposal of Assets	-	-	-	-
Less: Loss on sale	(85,230)	-	(85,230)	-
Amortisation charge	(593,445)	(790,460)	(232,235)	(85,126)
Closing Balance 30 June	**4,981,744**	**5,617,502**	**333,601**	**608,149**

14. Taxation Assets

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Deferred Tax Asset	1,987,565	1,705,839	1,987,565	1,705,839

Deferred Tax Asset Comprises:

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
- Provision for Impairment on Loans	30,497	198,102	30,497	198,102
- Deferred loan Costs		50,442	-	50,442
- Provision for Staff Entitlements	1,099,625	1,069,035	1,099,625	1,069,035
- Audit Accrual	58,126	29,913	58,126	29,913
- Other	799,317	358,347	799,317	358,347
Total	**1,987,565**	**1,705,839**	**1,987,565**	**1,705,839**

15. Amounts Payable to Other Financial Institutions

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Overdraft Secured (Note 31)	-	-	-	-
Negotiable Certificate of Deposit	83,898,650	75,571,332	83,898,650	75,571,332
Medium Term Note	20,000,000	15,000,000	20,000,000	15,000,000
Total	**103,898,650**	**90,571,332**	**103,898,650**	**90,571,332**

16. Deposits

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Member Deposits:				
- at call	886,152,882	823,706,433	886,152,882	823,706,433
- term	804,092,035	775,135,566	804,092,035	775,135,566
	1,690,244,917	1,598,841,999	1,690,244,917	1,598,841,999
Withdrawable Shares	280,940	340,178	280,940	340,178
Total	**1,690,525,857**	**1,599,182,177**	**1,690,525,857**	**1,599,182,177**

Concentration of Risk

(i.) There are no Members who individually have deposits which represent 10% or more of the total liabilities of the Bank.

(ii.) Details of classes of deposits which represent 10% or more of shareholders' equity of the Bank are set out on the next page.

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Industry Group				
State Government	585,193,220	550,007,163	585,193,220	550,007,163
Federal Government	170,205,116	157,966,942	170,205,116	157,966,942

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17. Creditors and Other Liabilities

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Creditors and Accruals	7,221,967	10,361,660	7,029,950	10,208,960
Interest Payable on Deposits	7,142,636	6,503,448	7,142,636	6,503,448
Total	**14,364,603**	**16,865,108**	**14,172,586**	**16,712,408**

18. Provisions

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Employee Benefits	2,235,100	2,276,501	2,121,382	2,178,311
Leasehold Make Good	850,000	750,000	850,000	750,000
Other	559,339	459,162	559,339	459,162
Total	**3,644,439**	**3,485,663**	**3,530,721**	**3,387,473**

Movement in the other provision balances:

Opening Balance 1 July	**459,162**	**17,192**	**459,162**	**17,192**
Less: Paid	(437,885)	(21,991)	(437,885)	(21,991)
Add: Merger provision	500,000	450,000	500,000	450,000
Liability increase in current year	38,062	13,961	38,062	13,961
Closing Balance 30 June	**559,339**	**459,162**	**559,339**	**459,162**

19. Taxation Liabilities

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Provisions for Income tax/(Receivable)	(863,389)	(349,367)	(949,286)	(451,427)
Provision for Deferred Income Tax	2,583,229	774,577	2,583,229	774,577
Other	102,836	116,003	(12,808)	(7,508)
Total Taxation Liabilities/(Assets)	**1,822,676**	**541,213**	**1,621,135**	**315,642**

Provision for Deferred Income Tax Comprises:

- Prepayments;	1,235	3,276	1,235	3,276
- Tax allowances relating to Property, Plant & Equipment;	1,409,646	680,558	1,409,646	680,558
- Tax allowances relating to Chelsea Wealth Management Pty Ltd.	74,006	74,006	74,006	74,006
- Other Assets	-	16,737	-	16,737
- Tax due on assets held at fair value investments held in equity	1,098,342	-	1,098,342	-
Total	**2,583,229**	**774,577**	**2,583,229**	**774,577**

20. Capital Reserve Account

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Balance 1 July	**442,170**	**432,760**	**442,170**	**432,760**
Transfer from retained earnings on share redemptions	7,710	9,410	7,710	9,410
Balance 30 June	**449,880**	**442,170**	**449,880**	**442,170**

a. Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the Bank since 1 July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

b. Issue of shares on transfer of business

The transfer of business from Heritage Isle Credit Union Pty Ltd on the 1st May 2018 resulted in the issue of shares to members transferring to the Bank. The excess value of the shares issued is taken up as a capital value in accordance with accounting standards. The shares held by the members of HICU were effectively cancelled at this time.

21. General Reserves For Credit Losses

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
General Reserves For Credit Losses	3,206,345	3,206,345	3,206,345	3,206,345
Balance 1 July	**3,206,345**	**2,740,600**	**3,206,345**	**2,740,600**
Add: Increase (Decrease) transferred from retained earnings	-	465,745	-	465,745
Balance 30 June	**3,206,345**	**3,206,345**	**3,206,345**	**3,206,345**

22. Governance and Risk Management

The Board of Directors recognise that they are ultimately responsible for the sound and prudent management of the Bank and ensuring that an adequate and effective system of internal controls is established and maintained. Specifically, the Board:

- Establishes a governance structure (Board sub-Committees, management committees, executive responsibilities, risk management and assurance functions);
- Is ultimately responsible for the risk management frameworks and oversees the operation of these by management;
- Sets the risk appetite within which it expects management to operate and approves the Risk Appetite Statement; and
- Establishes and maintains a sound risk management culture by setting the tone at the top.

Governance

The Board has endorsed a Risk Management Strategy, which forms part of the overall Risk Management Framework. The framework has been developed to suit the risk profile of the Bank.

The Board has established a governance framework that identifies, manages and reports on risk. This is implemented in the Bank as the three lines of defence model with business units and management as the first line (risk owners), risk and compliance as the second line (owns framework and monitors compliance) and internal audit and the respective Board subcommittees as the third line (oversight).

The Board has established separate Governance, Nomination, Risk and Audit Committees each compromising independent Chair and Directors to oversee governance activities; Director and management appointment and remuneration; financial reporting and the effectiveness of audits; and the management and oversight of risk and compliance. The Committees are required to devote time and expertise to these areas over and above the time prescribed in scheduled Board meetings.

Board Governance Committee: The Committee assists the Board as follows:

- Board adherence to good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority in Australian Prudential Standards CPS 510 and CPS 520;
- Ensuring all Directors and responsible persons are of good character and meet the "Fit and Proper" requirements of the Bank's Fit and Proper Policy;
- Advise the Board in regard to its responsibilities in relation to board renewal;
- Review disputes from Members relating to the Bank's policies, procedures, systems or service delivery, which have been unable to be resolved by Management; and
- To assess the appropriateness of Director and Executive remuneration, and encourage behaviour that supports the long – term financial soundness of the Bank and the risk management framework.

This Committee holds at least two meetings each year.

Board Nominations Committee: The Nominations Committee has been established to independently assess the fairness and propriety of all candidates for the positions of Director. In addition, the Committee ensures that those persons interviewed for the position of Director have the appropriate level of skills, experience and qualifications to be eligible to be a Director. This Committee holds at least one meeting each year.

Board Risk Committee: The primary objective of the Risk Committee is to assist the Board with its responsibilities in overseeing the risk governance and compliance of Police Bank and to recommend the risk profile and risk management framework to the Board.

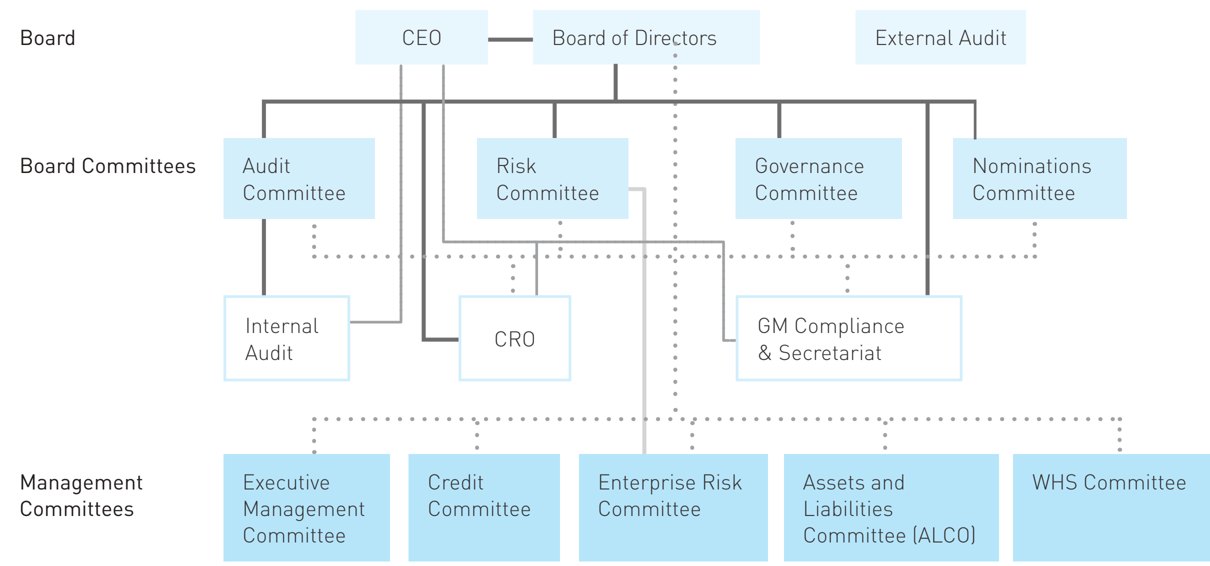
The Risk Committee assists the Board by providing an objective non-executive review of the effectiveness of the Risk Management Framework of the Bank by:

- Providing reasonable assurance to the Board that core business goals and objectives are being achieved in an effective and efficient manner, within an appropriate framework of governance, risk management and internal control;
- Monitoring the adequacy, integrity and effectiveness of the internal control environment and risk management process;
- Reviewing processes established by management to ensure that the requirements of APRA's Prudential Standards and the Corporations Act are being adhered to;
- Monitoring compliance with all other internal, regulatory, prudential, legal, adopted industry and ethical requirements and standards; and
- Forming a view of the risk culture of Police Bank.

The Risk Committee holds at least 4 meetings each year and the Committee periodically monitors the annual risk plan.

Compliance and Risk teams: Compliance and Risk have responsibility for developing risk management and compliance policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risk and compliance for the Bank. The Bank has appointed a qualified Chief Risk Officer (CRO) to head the risk department and a General Manager of Compliance and Secretariat to oversee the compliance and company secretariat functions.

Members



Board Audit Committee: The primary objective of the Audit Committee is to assist the Board of Directors in regard to the Board's responsibilities as they relate to:

- Audit obligations (internal & external);
- Financial reporting practices;
- Accounting policies;
- Management and internal controls.

The Audit Committee:

- Oversees and appraise the quality of the audits conducted by both the Internal and External Auditors;
- Reviews and approve the Internal Audit Charter;
- Provides, through regular meetings, a forum for communication between the Board, Senior Management and both the Internal and External Auditors;
- Serves as an independent and objective party to review the financial information presented by management to Members and regulators; and
- Determines the adequacy of the Bank's administrative, operating and accounting controls.

This Committee holds at least 4 meetings each year and the Committee periodically monitors the annual internal audit plan.

Internal Audit team: Internal Audit has responsibility for auditing the business (including the risk and compliance functions) in line with the annual Audit Plan approved by the Board Audit Committee.

Risk Management

Police Bank Board has adopted a Risk Management Strategy that sets out its approach to the oversight and management of risks through a comprehensive risk management framework and regularly reviews the soundness and effectiveness of that framework. The framework is designed to identify and manage risk on an ongoing basis.

The Board sets the risk appetite for the Bank, oversees the risk management framework and satisfies itself that the framework is sound by reviewing reports received and monitoring performance. It is the responsibility of management to design and implement the risk management framework and to ensure that the Bank operates within the risk appetite set by the Board.

In determining the risk appetite for the Bank, the Board has determined that the Bank has a conservative tolerance for risk taking. As a result management is risk aware and has incorporated risk management into strategic planning and decision making to understand and prioritise the management of material business risks. When making a decision to enter into a transaction or pursue a course of action, risks are considered in the context of the risk appetite set by the Board.

Police Bank is committed to maintaining a robust, relevant and good practice risk management framework. As such, the Bank is committed to the ongoing improvement as weaknesses and related improvements are identified. All management (first, second and third lines) are responsible for review and recommending improvements to the frameworks, systems and policies employed by Police Bank to manage risk.

The Bank has the following management committees for managing and reporting on risks for the Bank:

FINANCIAL STATEMENTS – NOTES TO THE ACCOUNTS

Executive Management Committee (EXCO): This management committee meets weekly and is a forum for the Executive Management team to review operations across the Bank, including strategy & direction, project management, performance and insights and enterprise risks across the Bank.

Credit Committee: This management committee meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Credit Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be in put in place regarding the authorisation of new loans.

Enterprise Risk Committee: This management committee meets monthly and assists the Chief Executive Officer (CEO) and the Executive Management team of Police Bank in fulfilling the responsibilities of the Bank's enterprise-wide risk management framework, including the strategies, policies, standards and systems established by the Board and its Committees to identify, assess, measure and manage its risks facing Police Bank.

Asset and Liability Committee (ALCO): This management committee meets monthly and has responsibility for managing interest rate risk exposures, and ensuring that the Treasury and Finance functions adhere to exposure limits as outlined in the policies for interest rate and liquidity risk. The daily scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by ALCO.

Workplace Health & Safety Committee: This management committee meets monthly to assist the Bank in fulfilling its responsibility for the development, monitoring and review of health and safety policies, strategies, systems and processes implemented and reported on to EXCO and the Board.

Financial Risk Management

The risks that the Bank is exposed to include, but are not limited to:

» Credit risk
» Market risk
» Interest rate risk
» Equity investments
» Liquidity risk
» Operational risk

Credit Risk

The Credit Committee 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.

All large credit exposure facilities above policy limits are approved by the Credit Committee.

All loans are managed 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. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Committee monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated collections team, which reports to the Credit Committee, implements the Bank's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.

Carrying value

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus undrawn facilities consisting of loans approved not advanced, redraw facilities, overdraft facilities, credit card limits and funds held in loans offset accounts. The risk of losses on loans is reduced through the nature and quality of security taken. All loans and facilities are within Australia with the majority held in NSW and ACT.

The Bank has a concentration in retail lending to Members who are predominantly employees in the NSW Police Force, the Australian Federal Police and State of Tasmania. This concentration is considered acceptable on the basis that the Bank was formed to service these Members, the industry is an essential and stable industry. Should Members leave this industry other private sector opportunities are available.

Credit risk is managed through a structured framework of systems and controls including:

» Document credit risk – lending principles that are disseminated to all staff involved in the lending process;
» Documented polices;
» Documented processes for approving and managing lending based on delegations; and
» A series of management reports detailing industry, geographic, and Loan to Value Ratio (LVR) concentrations, along with monitoring non-performing Lending.

Documented policies have been endorsed by the Board to ensure that loans are only made to Members who are capable of meeting loans repayments.

	2019			2018		
	CARRYING VALUE	OFF BALANCE SHEET	MAXIMUM EXPOSURE	CARRYING VALUE	OFF BALANCE SHEET	MAXIMUM EXPOSURE
	$	$	$	$	$	$
Residential	1,293,735,111	68,897,881	1,362,632,992	1,236,170,541	56,915,559	1,293,086,100
Personal	100,963,804	488,872	101,452,676	122,738,099	881,866	123,619,965
Credit Cards	21,122,559	28,468,301	49,590,860	22,671,183	29,677,647	52,348,830
Overdrafts	8,467,733	21,182,310	29,650,043	8,728,524	22,032,062	30,760,586
Total to Natural Persons	**1,424,289,207**	**119,037,364**	**1,543,326,571**	**1,390,308,347**	**109,507,134**	**1,499,815,481**
Commercial	205,725,191	-	205,725,191	206,645,678	-	206,645,678
Total	**1,630,014,398**	**119,037,364**	**1,749,051,762**	**1,596,954,025**	**109,507,134**	**1,706,461,159**

External credit assessment for institution investments

The 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 Guidance Note 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:

	2019	2019	2019	2018	2018	2018
INVESTMENTS WITH	CARRYING VALUE	PAST DUE VALUE	PROVISION	CARRYING VALUE	PAST DUE VALUE	PROVISION
	$	$	$	$	$	$
ADIs rated A-1+ to A-1 (short-term)	73,452,122	-	-	28,975,751	-	-
ADIs rated A-2+ or P-2 or F-2 (short-term)	58,783,349	-	-	65,617,216	-	-
ADIs rated A-3 (short-term)	4,974,547	-	-	-	-	-
ADIs rated AA+ to AAA- (long-term)	56,697,451	-	-	53,095,357	-	-
ADIs rated A+ to A (long-term)	33,289,329	-	-	33,570,185	-	-
ADIs rated BBB+ to Baa2+ (long-term)	69,818,339	-	-	44,476,589	-	-
ADIs unrated	31,000,000	-	-	17,900,000	-	-
Total	**328,015,137**	**-**	**-**	**243,635,098**	**-**	**-**

Market Risk

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

(i.) Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within their Treasury operations. Police Bank does not trade in financial instruments.

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(ii.) Interest Rate Risk in the Banking Book

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

The interest rate risk on the banking book is measured daily, reported to ALCO monthly, and to the Board via ALCO monthly.

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

The level of mismatch on the banking book is set out in Note 26. The table set out at Note 26 displays the period that each asset and liability will reprice as at the balance date.

(iii.) Method of Managing Risk

The Bank manages its interest rate risk by the use of value at risk models (VAR) and interest rate sensitivity analysis, the detail and assumptions used are set out below. Risk Management is also facilitated by the introduction of a Pricing Committee in the 2017 financial year.

(iv.) Hedging

To mitigate this risk the Bank has entered into pay fixed/receive floating interest rate swaps. The interest rate risk on fixed rate loans/assets are hedged by purchasing pay fixed/receive floating interest rate swaps. As at 30 June 2019 there were no notional principle amounts of the interest rate swap contracts. The fair value reflected in the Balance Sheet is nil. The valuation of the derivative transactions is based on mid-market levels as of the close of business on 30 June 2019. The valuations are derived from proprietary models based upon well recognised financial principles and reasonable estimates about relevant future market conditions.

(v.) Interest Rate Sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to monitor on a monthly basis the changes to maturity profiles within its deposit base and changes in the underlying portfolio mix to ensure that such changes will not have an unacceptable adverse outcome to the Bank. The policy of the Bank is to use derivatives to hedge against adverse consequences of interest rate risk. The Bank's exposure to interest rate risk is set out in Note 26 which details the contractual interest change profile.

Based on the calculations as at 30 June 2019, the calculated market value of equity (EVE) is $192.0 million, with a sensitivity of $1,207,337 to a 0.64% change in interest rates.

The Bank performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- » the interest rate change would be applied equally over to the loan products and term deposits;
- » the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- » the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- » savings deposits would not reprice in the event of a rate change;
- » fixed rate loans would all reprice to the new interest rate at the contracted date;
- » variable rate mortgage loans would all reprice to the new interest rate in one month;
- » personal loans would reprice at the contracted maturity date;
- » all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- » the value and mix of call savings to term deposits will be unchanged; and
- » the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

Liquidity Risk

Liquidity risk is the risk that the 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 the Bank maintains adequate cash reserves and committed credit facilities so as to meet the Member withdrawal demands when requested.

The Bank manages liquidity risk by:

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

APRA	2019	2018
To total adjusted liabilities		
As at 30 June	13.42%	13.34%
Average for the year	13.38%	13.90%
Minimum during the year	12.57%	13.34%
To total Member deposits		
As at 30 June	**16.64%**	**14.69%**

Operational Risk

The Enterprise Risk Committee is responsible for managing and reporting on Enterprise Risk across the Bank, including Operational Risk.

Operational risk is the risk of loss resulting from inadequate or failed processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risk at the Bank relates mainly to legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the application of controls whilst avoiding procedures that inhibit innovation and creativity. These controls are managed through the application of policies, processes and systems to minimise the likelihood and impact of risk events.

The Bank has implemented an Operational Risk Management Framework that includes risk identification, measurement, evaluation, monitoring and reporting process where the board and senior management identify key risk in a 'top down' approach and business units identify risks in a 'bottom up' approach.

Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- » Credit risk;
- » Market risk (Trading Book); and
- » Operations risk.

The market risk component is not required as the Bank is not engaged in a Trading Book for financial instruments.

Capital Resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- » Retained profits;
- » Realised reserves; and
- » Asset revaluation reserves on property.

Additional Tier 1 capital

This is a new classification of capital and includes:

- » Preference share capital approved by APRA and which qualify as Tier 1 capital.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Capital in the Bank is made up as shown in chart below.

	2019	2018
Tier 1		
Share capital	449,880	442,170
General reserve	46,547,864	45,347,864
Retained earnings	153,136,598	151,858,852
Asset revaluations reserves	3,620,043	1,103,734
Less prescribed deductions	(15,041,307)	(13,128,159)
Net tier 1 capital	188,713,078	185,624,461
Tier 2		
Reserve for credit losses	3,206,345	3,206,345
Tier 2 capital	3,206,345	3,206,345
Total Capital	**191,919,423**	**188,830,806**

The Bank is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance Note AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2019	2018	2017	2016	2015
Basel III	Basel III	Basel III	Basel III	Basel III
19.12%	**19.40%**	**18.65%**	**18.87%**	**18.53%**

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

To manage the Bank's capital, the Bank reviews the ratio monthly and monitors movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14.5%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Based on this approach, the Bank's operational risk requirement is as follows:

» Operational Risk Regulatory Capital $8,362,914

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below:

Internal Capital Adequacy Management

The Bank manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

In relation to the operational risks, the major measurements for additional capital are recognised by the monitoring and stress testing for:

1. Asset impairment – the impact of economic and employment factors on the loan losses, and/or recovery of investments.
2. Property value decline – the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets.
3. Interest rate risk – measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
4. Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities

23. Categories of Financial Instruments and Liabilities

The following information classifies the financial instruments into measurement classes.

		CONSOLIDATED		POLICE BANK	
	NOTE(S)	2019	2018	2019	2018
		$	$	$	$
Financial Assets – carried at amortised cost					
Cash	6	30,451,543	39,203,802	29,946,216	38,720,318
Receivables	7	2,989,309	3,571,930	2,694,705	3,294,672
Investment Securities	8	302,505,778	219,629,483	302,505,778	219,629,483
Loans & Advances	9 &10	1,625,509,773	1,594,299,640	1,625,509,773	1,594,299,640
Total Loans and Receivables		**1,961,456,403**	**1,856,704,855**	**1,960,656,472**	**1,855,944,113**
Investments and Assets FVOCI	11(a)	25,819,814	23,103,973	25,819,814	23,103,973
Investment in Subsidiary	11(b)	-	-	5,403,458	5,403,458
Non-current Assets Held for Sale	11(c)	-	1,497,575	-	1,497,575
Total Financial Assets		**1,987,276,217**	**1,881,306,403**	**1,991,879,744**	**1,885,949,119**
Financial Liabilities carried at amortised cost					
Payables to other Financial Institutions	15	103,898,650	90,571,332	103,898,650	90,571,332
Deposits from Members	16	1,690,244,917	1,598,841,999	1,690,244,917	1,598,841,999
Withdrawable Shares	16	280,940	340,178	280,940	340,178
Creditors and Borrowings	17	14,364,603	16,865,108	14,172,586	16,712,408
Total Carried at Amortised Cost		**1,808,789,110**	**1,706,618,617**	**1,808,597,093**	**1,706,465,917**
Fair Value of Derivatives		-	5,894	-	5,894
Total Financial Liabilities		**1,808,789,110**	**1,706,624,511**	**1,808,597,093**	**1,706,471,811**

FINANCIAL STATEMENTS – NOTES TO THE ACCOUNTS

24. Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on their contractual term, and in the case of loans, the repayment amount and frequency. The table on the next page 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 balance sheet.

2019

	BALANCE SHEET	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL CASH FLOWS
	$	$	$	$	$	$
Assets						
Cash	30,451,543	30,451,543	-	-	-	30,451,543
Receivables	2,989,309	2,989,309	-	-	-	2,989,309
Investment Securities	302,505,778	169,410,672	61,996,765	67,598,341	3,500,000	302,505,778
Loans and Advances	1,625,509,773	20,675,464	57,235,042	338,563,331	1,213,540,562	1,630,014,399
Investments and Assets FVOCI	25,819,814	-	-	-	25,819,814	25,819,814
On Balance Sheet Financial Assets	**1,987,276,217**	**223,526,988**	**119,231,807**	**406,161,672**	**1,242,860,376**	**1,991,780,843**
Total Financial Assets	**1,987,276,217**	**223,526,988**	**119,231,807**	**406,161,672**	**1,242,860,376**	**1,991,780,843**
Liabilities						
Creditors and Accruals	7,221,967	7,221,967	-	-	-	7,221,967
Creditors Interest Payable on Deposits	7,142,636	7,142,636	-	-	-	7,142,636
Deposits from Members – At Call	886,152,882	886,152,882	-	-	-	886,152,882
Deposits from Members – Fixed Term	804,092,035	310,933,308	352,570,118	140,588,609	-	804,092,035
Negotiable Certificate of Deposit	83,898,650	59,830,777	10,174,395	-	-	70,005,172
Medium Term Notes	20,000,000	20,000,000	-	-	-	20,000,000
Withdrawable Shares	280,940	280,940	-	-	-	280,940
On Balance Sheet Financial Liabilities	**1,808,789,110**	**1,291,562,510**	**362,744,513**	**140,588,609**	**-**	**1,794,895,632**
Undrawn Loan Commitments	119,037,364	119,037,364	-	-	-	119,037,364
Total Financial Liabilities	**1,927,826,474**	**1,410,599,874**	**362,744,513**	**140,588,609**	**-**	**1,913,932,996**

2018

	BALANCE SHEET	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL CASH FLOWS
	$	$	$	$	$	$
Assets						
Cash	39,203,802	39,203,802	-	-	-	39,203,802
Receivables	3,571,930	3,571,930	-	-	-	3,571,930
Receivables from Financial Institutions	45,900,000	23,548,956	22,500,000	-	-	46,048,956
Investment Securities	173,729,483	85,968,566	9,516,965	77,749,534	1,000,000	174,235,065
Loans and Advances	1,594,299,640	33,848,834	101,546,501	541,581,336	1,600,167,097	2,277,143,768
Available for Sale Investments	23,103,973	-	-	-	23,103,973	23,103,973
Non-current Assets Held for Sale	1,497,575	-	1,497,575	-	-	1,497,575
On Balance Sheet Financial Assets	**1,881,306,403**	**186,142,088**	**135,061,041**	**619,330,870**	**1,624,271,070**	**2,564,805,069**
Interest Rate Swaps	10,000,000	-	10,000,000	-	-	10,000,000
Total Financial Assets	**1,891,306,403**	**186,142,088**	**145,061,041**	**619,330,870**	**1,624,271,070**	**2,574,805,069**
Liabilities						
Creditors and accruals	10,361,660	10,361,660	-	-	-	10,361,660
Creditors Interest Payable on Deposits	6,503,448	6,503,448	-	-	-	6,503,448
Deposits from Members - At Call	823,706,433	823,706,433	-	-	-	823,706,433
Deposits from Members - Fixed Term	775,135,566	371,981,196	304,932,001	116,652,665	-	793,565,862
Negotiable Certificate of Deposit	75,571,332	52,000,000	24,500,000	-	-	76,500,000
Medium Term Note	15,000,000	15,000,000	-	-	-	15,000,000
Withdrawable Shares	340,178	340,178	-	-	-	340,178
On Balance Sheet Financial Liabilities	**1,706,618,617**	**1,279,892,915**	**329,432,001**	**116,652,665**	**-**	**1,725,977,581**
Undrawn Loan Commitments	109,507,134	109,507,134	-	-	-	109,507,134
Interest Rate Swaps	10,000,000	-	10,000,000	-	-	10,000,000
Total Financial Liabilities	**1,826,125,751**	**1,389,400,049**	**339,432,001**	**116,652,665**	**-**	**1,845,484,715**

25. Maturity Profile of Financial Assets and Liabilities

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by Members choosing to repay loans earlier. These advance repayments are at the discretion of the Members and not able to be reliably estimated.

2019

	WITHIN 12 MONTHS	AFTER 12 MONTHS	TOTAL
	$	$	$
Assets			
Cash	30,451,543	-	30,451,543
Receivables	2,989,309	-	2,989,309
Investment Securities	94,979,950	207,525,828	302,505,778
Loans and Advances	77,910,506	1,547,599,267	1,625,509,773
Investments and Assets FVOCI	-	25,819,814	25,819,814
On Balance Sheet Financial Assets	**206,331,308**	**1,780,944,909**	**1,987,276,217**
Total Financial Assets	**206,331,308**	**1,780,944,909**	**1,987,276,217**
Liabilities			
Creditors and Accruals	7,221,967	-	7,221,967
Creditors Interest Payable on deposits	7,142,636	-	7,142,636
Deposits from Members – At Call	886,152,882	-	886,152,882
Deposits from Members – Fixed Term	663,503,426	140,588,609	804,092,035
Negotiable Certificate of Deposit	83,898,650	-	83,898,650
Medium Term Note	20,000,000	-	20,000,000
Withdrawable Shares	280,940	-	280,940
On Balance Sheet Financial Liabilities	**1,668,200,501**	**140,588,609**	**1,808,789,110**
Undrawn Loan Commitments	119,037,364	-	119,037,364
Total Financial Liabilities	**1,787,237,865**	**140,588,609**	**1,927,826,474**

2018

	WITHIN 12 MONTHS	AFTER 12 MONTHS	TOTAL
	$	$	$
Assets			
Cash	39,203,802	-	39,203,802
Receivables	3,571,930	-	3,571,930
Receivables from Financial Institutions	45,900,000	-	45,900,000
Investment Securities	94,979,950	78,749,533	173,729,483
Loans and Advances	65,218,775	1,529,080,865	1,594,299,640
Available for Sale Investments	-	23,103,973	23,103,973
Non-current Assets Held for Sale	1,497,575	-	1,497,575
On Balance Sheet Financial Assets	**250,372,032**	**1,630,934,371**	**1,881,306,403**
Interest Rate Swaps	10,000,000	-	10,000,000
Total Financial Assets	**260,372,032**	**1,630,934,371**	**1,891,306,403**
Liabilities			
Creditors and Accruals	10,361,660	-	10,361,660
Creditors Interest Payable on deposits	6,503,448	-	6,503,448
Deposits from Members – At Call	823,706,433	-	823,706,433
Deposits from Members – Fixed Term	659,837,802	115,297,764	775,135,566
Negotiable Certificate of Deposit	75,571,332	-	75,571,332
Medium Term Note	15,000,000	-	15,000,000
Withdrawable Shares	340,178	-	340,178
On Balance Sheet Financial Liabilities	**1,591,320,853**	**115,297,764**	**1,706,618,617**
Undrawn Loan Commitments	109,507,134	-	109,507,134
Interest Rate Swaps	10,000,000	-	10,000,000
Total Financial Liabilities	**1,710,827,987**	**115,297,764**	**1,826,125,751**

26. Interest Rate Change Profile of Financial Assets and Liabilities

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits and Term Investments) or after adequate notice is given (Loans and Savings). The following table shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2019

	FLOATING RATE	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
	$	$	$	$	$	$
Assets						
Cash	28,215,515	-	-	-	2,236,028	30,451,543
Receivables	-	-	-	-	2,989,309	2,989,309
Investment Securities	-	283,640,082	18,865,696	-	-	302,505,778
Loans and Advances	1,083,022,359	28,342,537	211,665,058	302,479,819	-	1,625,509,773
Investments and Assets FVOCI	-	-	-	-	25,819,814	25,819,814
On Balance Sheet Financial Assets	**1,111,237,874**	**311,982,619**	**230,530,754**	**302,479,819**	**31,045,151**	**1,987,276,217**
Total Financial Assets	**1,111,237,874**	**311,982,619**	**230,530,754**	**302,479,819**	**31,045,151**	**1,987,276,217**
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	14,364,603	14,364,603
Deposits from Members – At Call	886,152,882	-	-	-	-	886,152,882
Deposits from Members – Fixed Term	-	310,933,308	352,570,118	140,588,609	-	804,092,035
Negotiable Certificate of Deposit	-	74,708,826	9,189,824	-	-	83,898,650
Medium Term Note	-	20,000,000	-	-	-	20,000,000
Withdrawable Shares	-	-	-	-	280,940	280,940
On Balance Sheet Financial Liabilities	**886,152,882**	**405,642,134**	**361,759,942**	**140,588,609**	**14,645,543**	**1,808,789,110**
Undrawn Loan Commitments	119,037,364	-	-	-	-	119,037,364
Total Financial Liabilities	**1,005,190,246**	**405,642,134**	**361,759,942**	**140,588,609**	**14,645,543**	**1,927,826,474**

2018

	FLOATING RATE	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
	$	$	$	$	$	$
Assets						
Cash	35,846,961	-	-	-	3,356,841	39,203,802
Accrued Receivables	-	-	-	-	3,571,930	3,571,930
Receivables from Financial Institutions	-	45,900,000	-	-	-	45,900,000
Investment Securities	-	173,729,483	-	-	-	173,729,483
Loans and Advances	1,019,655,562	8,254,681	58,415,375	507,974,022	-	1,594,299,640
Available for Sale Investments	-	-	-	-	23,103,973	23,103,973
Non-current Assets Held for Sale	-	-	-	-	1,497,575	1,497,575
On Balance Sheet Financial Assets	**1,055,502,523**	**227,884,164**	**58,415,375**	**507,974,022**	**31,530,319**	**1,881,306,403**
Interest Rate Swaps	-	10,000,000	-	-	-	10,000,000
Total Financial Assets	**1,055,502,523**	**237,884,164**	**58,415,375**	**507,974,022**	**31,530,319**	**1,891,306,403**
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	16,865,108	16,865,108
Deposits from Members – At Call	823,706,433	-	-	-	-	823,706,433
Deposits from Members – Fixed Term	-	296,533,078	363,303,337	115,299,151	-	775,135,566
Negotiable Certificate of Deposit	-	51,655,070	23,916,262	-	-	75,571,332
Medium Term Note	-	15,000,000	-	-	-	15,000,000
Withdrawable Shares	-	-	-	-	340,178	340,178
On Balance Sheet Financial Liabilities	**823,706,433**	**363,188,148**	**387,219,599**	**115,299,151**	**17,205,286**	**1,706,618,617**
Undrawn Loan Commitments	109,507,134	-	-	-	-	109,507,134
Interest Rate Swaps	-	10,000,000	-	-	-	10,000,000
Total Financial Liabilities	**933,213,567**	**373,188,148**	**387,219,599**	**115,299,151**	**17,205,286**	**1,826,125,751**

27. Net Fair Value of Financial Assets and Liabilities

Net Fair Value is an estimate of the present market value of each asset or liability and has been calculated to show the difference between the current and future value of funds at the present time. Where the assets/liabilities are short term in nature or reprice frequently, then the net fair value is stated at book value.

The information is only relevant to circumstances at Balance Date and will vary depending on the contractual rates applied to each asset and liability. No assets held are regularly traded by the Bank.

	2019	2018	2019	2018	2019	2018
	RECEIVABLES FROM INVESTMENT SECURITIES AT AMORTISED COSTS		LOANS & ADVANCES (BEFORE PROVISION)		INVESTMENTS AND ASSETS FVOCI	
	$	$	$	$	$	$
Assets						
Net Fair value	301,106,342	215,531,402	1,630,422,067	1,597,573,921	7,589,121	-
Book Value	302,505,778	219,629,483	1,630,014,398	1,596,954,025	3,928,106	3,928,106
Variance	**(1,399,436)**	**(4,098,081)**	**407,669**	**619,896**	**3,661,015**	**(3,928,106)**

	2019	2018	2019	2018	2019	2018
	PAYABLE TO OTHER FINANCIAL INSTITUTIONS		MEMBER DEPOSIT		INTEREST RATE SWAPS	
	$	$	$	$	$	$
Liabilities						
Net Fair value	85,353,647	74,309,782	1,691,699,519	1,598,940,052	-	9,994,106
Book Value	83,898,650	75,571,332	1,690,525,857	1,599,182,177	-	10,000,000
Variance	**1,454,997**	**(1,261,550)**	**1,173,662**	**(242,125)**	**-**	**(5,894)**

28. Derivative Financial Instruments

The Bank is exposed to the financial risk of changes in interest rates to the extent of the repricing profile of the Bank's balance sheet. Derivative financial instruments are held for the purpose of managing existing or anticipated risk from the source.

The Bank applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk.

	2019		2018	
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	$	$	$	$
Interest Rate Swaps designated as cash flow hedges	**-**	**-**	**10,000,000**	**9,994,106**

29. Expenditure Commitments

a. Future Capital Commitments

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Within 1 year	1,094,959	1,094,959	1,094,959	1,094,959
1 to 2 years	1,094,959	1,094,959	1,094,959	1,094,959
3 to 5 years	1,556,608	2,651,567	1,556,608	2,651,567
over 5 years	-	-	-	-
Total	**3,746,526**	**4,841,485**	**3,746,526**	**4,841,485**

b. Future Lease Rental Commitments

Future lease rental commitments are $3,698,217 (2018 $3,939,050). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Within 1 year	1,240,049	1,154,162	1,151,847	1,067,771
1 to 2 years	1,007,681	1,098,413	917,252	1,009,844
2 to 5 years	1,253,663	1,670,358	1,065,893	1,425,861
over 5 years	196,824	16,117	196,824	16,117
Total	**3,698,217**	**3,939,050**	**3,331,816**	**3,519,593**

30. Financial Commitments

Loan Commitments

Loans approved but not funded as at 30 June 2019 total $56,731,641 (2018 $44,582,911).

Undrawn Loan Facilities

Loan facilities available to Members for Overdrafts, Credit Card and Redraw Loans are as follows:

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Total value of facilities approved	99,885,503	103,648,016	99,885,503	103,648,016
Less: Amount outstanding at balance day	(37,579,780)	(38,723,793)	(37,579,780)	(38,723,793)
Net undrawn value	**62,305,723**	**64,924,223**	**62,305,723**	**64,924,223**

These commitments are contingent on Members maintaining credit standards and on-going repayment terms on amounts drawn. Under the contracts, the Bank has the right to withdraw the facilities at any time without notice.

31. Standby Borrowing Facilities

The Bank has the following credit facilities with CUSCAL:

OVERDRAFT	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
Approved Limit	4,000,000	4,500,000	4,000,000	4,500,000
Less: Amount drawn	-	-	-	-
Available to draw	**4,000,000**	**4,500,000**	**4,000,000**	**4,500,000**

Draw down of the loan facility is subject to the availability of funds at CUSCAL. CUSCAL holds a cash deposit equivalent to the amount of the overdraft.

32. Contingent Liabilities

The Bank currently does not have any contingent liabilities as at 30 June 2019.

33. Disclosures on Key Management Personnel

a. Remuneration of Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly including any Director (whether Executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons have been taken to comprise the Directors and the 4 Members of the Executive Management responsible for the day to day financial and operational management of the Bank.

The aggregate compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	2019 DIRECTORS	2019 OTHER KMP	2019 TOTAL	2018 DIRECTORS	2018 OTHER KMP	2018 TOTAL
	$	$	$	$	$	$
(a) short term employee benefits	595,328	2,393,872	2,989,200	578,253	2,127,731	2,705,984
(b) Post-employment benefits – Superannuation Contributions	56,535	223,362	279,897	51,646	182,107	233,753
(c) Other long-term benefits – net increases in Long Service leave provision	-	51,844	51,844	-	8,677	8,677
(d) Termination benefits	662,300	10,776	673,076	208,789	186,463	395,252
(e) Share-based Payment	-	-	-	-	-	-
Total	**1,314,163**	**2,679,854**	**3,994,017**	**838,688**	**2,504,978**	**3,343,666**

In the above table, remuneration shown as "short term benefits" means wages, salaries, paid annual leave and paid sick leave, 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 the Bank.

Note the AASB 124 standard does not specifically require the separation of the Directors and Executive remuneration. This note should be read in conjunction with note 18 of the financial statements.

Other Transactions with Key Management Persons

The disclosures are made in accordance with AASB 124 and include disclosures relating to policy for lending to related parties and, in respect of related party transactions, the amount included in:

(i.) each of the loans and advances, deposits and acceptances and promissory notes;

(ii.) each of the principal types of income and interest expense;

(iii.) the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and

(iv.) irrevocable commitments and contingencies arising from off balance sheet items.

b. Loans to Directors and Other Key Management Persons

	CONSOLIDATED 2019	CONSOLIDATED 2018	POLICE BANK 2019	POLICE BANK 2018
	$	$	$	$
(i) The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to:	1,451,295	1,336,969	1,451,295	1,336,969
(ii) The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	48,000	59,000	48,000	59,000
Less amounts drawn down and included in (i)	(5,419)	(11,579)	(5,419)	(11,579)
Net balance available	42,581	47,421	42,581	47,421
(iii) During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to:				
Revolving Credit Facilities	58,668	192,372	58,668	192,372
Personal Loans	-	-	-	-
Term Loans	1,202,000	618,709	1,202,000	618,709
Total	**1,260,668**	**811,081**	**1,260,668**	**811,081**
(iv) During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-	-	-
(v) Interest and other revenue earned on Loans and Revolving Credit facilities to Key Management Personnel.	67,905	50,264	67,905	50,264

The Bank's policy for lending to Directors and Management is that the loans are approved and deposits accepted on the same terms and conditions which apply 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 KMPs.

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 KMP.

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

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Total value Term and Savings Deposits from KMP	737,736	1,863,403	737,736	1,863,403
Total Interest paid on Deposits to KMP	**9,440**	**46,636**	**9,440**	**46,636**

The Bank's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which apply 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.

The Bank's policy for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which apply to Members.

There are no benefits paid or payable to the close family members of the Key Management Persons. There are no service contracts to which Key Management Persons or their close family members are an interested party.

34. Events Occurring after the Balance Date

There were no events that have occurred since 30 June 2019 that will have significant impact upon the Bank.

35. Superannuation Liabilities

If an employee does not nominate a fund of choice, the Bank contributes to one of two superannuation funds. One being the NGS Super which is an industry fund. The Bank has no interest in the Superannuation Fund (other than as a contributor to comply with Superannuation Guarantee Levy) and is not liable for the performance of the plan nor the obligations of the plan.

The other fund is a Corporate Master Trust which is administered by MLC Limited. It is a contribution accumulated type fund. The Bank has no legal obligation to cover any shortfall in the Fund's obligation to provide benefits to employees on retirement. In the event the Fund is terminated, Members are only entitled to the balance of their account within the fund. As at the date of the last annual review being 30 June 2019, the fund had reserves equal to Members accumulated balances.

The Bank is legally obligated to contribute to the Fund as per the Superannuation Guarantee Levy Act and for employees who have a contract of service. These obligations are enforceable. As at the date of this report there is:

1. No outstanding payments due by the Bank.
2. No former employee or any individual associated with a former employee or an entity of a former employee receiving or entitled to receive a benefit under the Corporate Master Trust

36. Transfers of Financial Assets

The Bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

(i.) The repurchase obligation (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not derecognised as the Bank retains the benefits of the trust until such time as a drawing is required.

(ii.) The Integris securitisation trust where the Bank acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

a. Securitised loans retained on the balance sheet – Repurchase Obligation REPO Trust

The values of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are primarily variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

The REPO trust is a trust established by the Bank to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the Bank receives a Warrant certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Warrant is secured over residential mortgage-backed securities (RMBS).

The Bank has financed the loans and received the net gains or losses from the trust after trustee expenses. The Bank has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Warrants received. The Bank retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Repo trust fails to meet the trust's criteria, the Bank is obliged to repurchase those loans and substitute equivalent qualifying loans into the trust.

	2019	2018
	$	$
Loans and Receivables	214,514,757	274,806,698
Fair Value of associated liabilities	**18,230,693**	**19,175,867**

	2019	2018
	$	$
Off Balance Sheet Financial Commitments	17,410,058	17,137,702
Pool Uplift	-	192,191,348

b. Securitised loans not on the balance sheet – Derecognised in their entirety

The Integris securitisation trust is an independent securitisation vehicle established by the peak Bank body, CUSCAL.

The Bank has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Bank also manages the loans portfolio on behalf of the trust. The Bank bears no risk exposure in respect of these loans. The Bank receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

These loans qualify for derecognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Bank. The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the Members.

The Bank does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

	2019	2018
	$	$
Integris securitisation trust (bulk items only)	493,731	618,479
Net income received from the continuing involvement cumulatively	4,592	7,760

FINANCIAL STATEMENTS – NOTES TO THE ACCOUNTS

37. Notes to Cash Flow Statement

Reconciliation of Cash

a. Cash includes cash on hand and deposits at call net of overdraft.

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Cash as at balance date comprises:				
Cash on Hand	4,890,745	15,198,187	4,385,419	14,714,704
Deposits at Call	25,560,798	24,005,615	25,560,797	24,005,614
Less: Overdraft with CUSCAL	-	-	-	-
Total	**30,451,543**	**39,203,802**	**29,946,216**	**38,720,318**

b. Member deposits and shares are shown net of deposits and withdrawals.

c. The net cash from Operating Activities is reconciled to the Operating Profit and Extraordinary Item after Income Tax.

	CONSOLIDATED		POLICE BANK	
	2019	2018	2019	2018
	$	$	$	$
Operating Profit after Income Tax	**2,430,100**	**8,438,683**	**2,617,936**	**8,973,644**
Add (Deduct):				
Bad Debts Written Off	861,406	613,205	861,406	613,205
Depreciation Expense	2,007,342	2,268,900	1,623,730	1,525,523
(Decrease) in Provision for Employee Entitlements	(41,401)	(137,958)	(56,928)	(65,165)
(Decrease)/Increase Accrued Expenses	(2,500,505)	(1,185,116)	(2,539,822)	(1,280,469)
Gain on Sale of Assets	(202,593)	81,876	(202,593)	71,091
Increase /(Decrease) in Prepayments	(191,571)	34,468	(191,571)	34,468
(Decrease)/Increase in Unearned Income	(324,310)	(52,726)	(324,310)	(52,726)
Amortised Loan Transaction Costs	(7,199)	9,893	(7,199)	9,893
Decrease in Sundry Debtors	582,621	87,707	599,967	80,209
(Increase) /Decrease in Deferred Taxes Payable	(98,605)	(172,313)	(74,575)	(172,313)
(Decrease)/Increase Provisions for Income Tax	(527,190)	(66,082)	(503,159)	(63,706)
Other Provisions	176,522	411,008	188,603	411,008
Net Cash from Revenue Activities	**2,164,617**	**10,331,545**	**1,991,485**	**10,084,662**

38. Outsourcing Arrangements

The 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 Mutual Banking Act. The Bank has equity in the company. This organisation:

- (i.) provides the license rights to Visa Card in Australia and settlement other institutions for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;
- (ii.) this company operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM providers to the Mutual Bank's EDP Systems

The valuation of the CUSCAL shares is based on the net assets backing as at the most recent financial report to recognise the company is not readily marketable, except within the current ADI membership of CUSCAL. Refer Note 11a for details on the fair value assessment.

(b.) **Ultradata Australia Pty Limited**
Provides and maintains the application software utilised by the Bank.

Compliance Statistics

Capital Adequacy

At all times the Bank must maintain a minimum of 8% capital adequacy ratio. The capital adequacy ratio is a measure of reserves, general provisions for doubtful debts less an amount equal to the future income tax benefit as a percentage of the risk weighted value of assets. The Bank's ratio as at balance date was 19.12% (2018 19.40%).

Liquidity

The Bank is required to maintain at all times liquid assets at a minimum level of 9% of its liability base in High Quality Liquid Assets. These percentages were exceeded for the whole year. In addition to liquid assets the Bank has in place confirmed standby lines available to it. The High Quality Liquid Asset Ratio as at balance date was 13.42% (2018 13.34%).

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