



WA's member-owned bank

P&N Bank Annual Report

2014



Directory

Directors

P M Gabb (Chair)
S J Melville (Deputy Chair)
E R Bradley
M L Fyfe
W Gregson
E A Manley
K J O'Callaghan
M J O'Neill
A C Philp
E L Smith

Chief Executive Officer

A Hadley

Company Secretary

E J Lawton

Registered Office

Police & Nurses Limited
ABN 69 087 651 876

Level 7, 130 Stirling Street
Perth 6000 Western Australia
Telephone 13 25 77
pnbank.com.au

External Auditors

PricewaterhouseCoopers
Brookfield Place, 125 St Georges Terrace
Perth 6000 Western Australia

Internal Auditors

Ernst & Young
11 Mounts Bay Road
Perth 6000 Western Australia

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This financial report covers both the separate financial statements of Police & Nurses Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Police & Nurses Limited and its subsidiaries.

The financial report is presented in Australian dollars.

Police & Nurses Limited is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Report of the Directors on pages 14 to 18, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 25 August 2014. The Directors have the power to amend and reissue the financial report.

Police & Nurses Limited publishes its Basel III disclosures (including capital and remuneration) on its website at quarterly intervals. The disclosure covering the period ending 30 June 2014 can be found here:

<http://pnbank.com.au/PDFDocuments/Miscellaneous/Prudential-Standards-AP330.pdf>

Financial results at a glance

	2009 Results	2010 Results	2011 Results	2012 Results	2013 Results	2014 Results	5 year CAGR*	1 year CAGR*
Total loans under management¹ (\$M)	2,121	2,274	2,439	2,387	2,386	2,450	2.92%	2.66%
Total assets under management¹ (\$M)	2,438	2,654	2,859	2,830	2,845	2,910	3.60%	2.28%
Deposits (\$M)	1,564	1,686	1,756	1,851	2,032	2,293	7.95%	12.80%
Reserves (\$M)	170.2	196.0	210.8	218.3	232.8	242.5	7.33%	4.15%
Group NPAT[^] (\$M)	9.7	23.1	12.8	9.2	13.1	9.1	-1.25%	-30.47%
Bank NPAT[^] (\$M)	11.4	14.4	14.3	11.1	12.1	9.8	-2.92%	-18.93%

*CAGR: Cumulative Annual Growth Rate

[^]NPAT: Net Profit After Tax

Notes:

1. Includes off balance sheet loans

Board Members



Paul Marshall Gabb
Chair



Stephen John Melville
Deputy Chair



Edwin Roy Bradley
Director



Michelle Louise Fyfe
Director



Wayne Gregson
Director



Elizabeth Anne Manley
Director



Karl Joseph O'Callaghan
Director



Michael John O'Neill
Director



Alan Craig Philp
Director



Eric Laurence Smith
Director

Chair's Report



“Committed to the “member-owned” model, P&N Bank has continued to provide retail banking services to over 100,000 members with our relentless focus on member service, fairer banking and competitive products and services.”

Welcome to our second Annual Report as P&N Bank, and my first as Chair of the Board of Directors.

P&N Bank has been operating in the WA marketplace for over 18 months since rebranding from Police & Nurses Credit Society in March 2013 and I am very pleased to report that we are enjoying significant success within the business as we prepare P&N for the future.

Committed to the “member-owned” model, P&N Bank has continued to provide retail banking services to over 100,000 members with our relentless focus on member service, fairer banking and competitive products and services.

I am particularly pleased to report that P&N Bank achieved the highest level of customer satisfaction in the national June and July 2014 Roy Morgan Customer Satisfaction Monitor in the Best Bank category with scores of 93% and 94% respectively. With the closest major bank that month scoring 82% in June, I am confident that P&N will continue to offer significantly superior service against the majors and I know that many of you choose to bank with us for precisely that reason.

Since taking over as Chair, your Board of Directors, CEO and Executive team have been heavily invested in creating a new 5 Year Strategic Plan that will allow P&N to grow and prosper long into the future.

One of the critical cornerstones to ensure success for our plan was the appointment of a new CEO. A strong advocate for the customer-owned banking model and with significant leadership experience in the sector, Andrew Hadley commenced with P&N in early January 2014 and has been charged to lead, energise and unlock further potential within the business.

The Board is very confident that Andrew's experience, abilities and personal style will greatly contribute to the future success of the organisation. He has already demonstrated his capability in leading the creation and direction of the 5 Year Strategic Plan with the support of his Executive team.

With the Board's full support, the new 5 Year Strategic Plan commenced in July and focuses on unlocking further value for members, operational improvement across the business and partnering for growth. We will continue to monitor the plan and adjust as necessary to ensure that it delivers successful outcomes for members in the coming months and years.

At this point, I must once again reassure our members that our member-owned model will not change. Being owned by you, our members, and not external shareholders, allows our profits to be reinvested into the business for the benefit of those who bank with us. We know that many of our members highly value this point of difference and I can assure you that we have no intention to deviate from this successful model.

In that vein, the Australian Government's Murray Financial Services Inquiry has been a timely opportunity for P&N Bank to represent our members and the customer-owned banking industry by way of our own submission calling for a level playing field. There are several significant advantages that the major banks enjoy such as their “too big to fail” status, preferential treatment in regards to risk weightings and lack of transparency of their sub-brands that we believe disadvantage smaller players such as P&N Bank. We are hopeful that our recommendations and commentary will influence positive change for our sector and members alike.

Chair's Report

Board Positions

At our 2013 Annual General Meeting (AGM), we welcomed Mr Mike O'Neill who joined P&N as our second Board appointed Director. Mike commenced his directorial duties in October last year and joins Ed Bradley as one of the two Board appointed Directors alongside our eight member elected Directors.

Final words from the Chair...

As Chair, I am very proud of the results and progress that our organisation has made during the past financial year. This has been a year in which important and significant strategic transition commenced for P&N. The commitment and dedication required has been quite demanding on both P&N staff and the Board.

To my fellow Directors I thank you for your invaluable support, sound counsel and for your collegiate manner in getting the job done. I particularly acknowledge our former Chair, Mr Eric Smith, and pay tribute to his sound Chairmanship of P&N over many years and whose fellowship has helped to ensure my succession into the role was orderly and seamless.

We farewelled our former long serving CEO, Mr Fred Huis, whose legacy of sound and enduring leadership which combined with an absolute commitment to mutuality helped P&N become the financially strong institution it is today – confident and poised to embrace its strategic opportunities to benefit members.

My sincere thanks go to our new CEO, Andrew Hadley and his Executive team for their unwavering support and loyalty to P&N Bank. I am very confident that P&N is in safe hands and I'm excited to see the early results of the positive changes that I know are being implemented throughout the organisation.

To the P&N Bank staff, I pass on the Board's gratitude and sincere appreciation for your dedication and commitment. We have a great team at P&N, many of whom regularly go above and beyond their regular duties to deliver exceptional service to our members.

Finally my thanks as always must go to you, our members, for your loyalty and support. I can assure you that you remain at the forefront of everything we do.

With our CEO, 5 Year Strategic Plan and the entire P&N team behind us, I believe we are very well placed for the future. I look forward to the year ahead and to welcoming more West Australians as members of P&N Bank.



Paul M Gabb
Chair

CEO's Report



“The core focus right now is our new 5 Year Strategic Plan which details the projects, initiatives and sequencing required for P&N to grow and prosper.”

Introduction

I am very pleased to present my first CEO's Report since commencing at P&N Bank in January.

I'd like to thank members and the P&N staff for the very warm welcome I've received. I can assure you that my enthusiasm for the role is as strong now as it was on my appointment last November and I'm extremely proud to be leading WA's largest locally owned and managed bank.

The past year has seen an unprecedented focus on P&N Bank ensuring that it can identify and truly deliver value to members. The 2013/2014 financial year represented the beginning of a focused investment for future improvement. We have made a deliberate decision to invest across the business in a whole host of initiatives aimed at driving greater performance and value.

There is no question that we have been impacted by the softer economic conditions in Western Australia. Whilst there is little we can do about the macro economic events, we can control our internal environment and I am conscious that P&N as a brand needs to become better at selling its value proposition to the broader market place. On the upside, we continue to demonstrate very high customer satisfaction ratings with more members choosing us as their main financial institution.

While profit is an important indicator of performance and necessary for growth, ultimately our success will not be measured by profitability alone. We must also consider the value that we deliver to our members. This approach is integral to understanding why P&N Bank exists: To serve its members, rather than paying dividends and driving capital growth for shareholders.

As mentioned by the Chair, the core focus right now is our new 5 Year Strategic Plan which details the projects, initiatives and sequencing required for P&N to grow and prosper. The journey to develop our Strategic Plan was robust and rigorous and I would like to thank the Board and the Executive team for their passion and commitment to creating a plan that establishes a firm foundation for growth and improvement long into the future.



CEO's Report

Financial Results 13/14

The past year, like recent years, can be best characterised as challenging for smaller ADIs such as P&N, with some localised economic headwinds.

The bank's net profit after tax was \$9.8 million, down 18.9% on the previous year's \$12.1 million.

Our capital levels improved 0.25% to 16.62% over the year and remain significantly higher than the minimum required by our regulator, demonstrating our strength as an organisation and ability to weather difficult times.

During 2013/2014, total Group assets increased by \$65 million (2.3%) to \$2.91 billion, largely driven by a \$64m (2.7%) increase in loans and advances.

Member deposits improved by \$260 million (12.8%) to \$2.29 billion, as a result of competitive product offerings and members doing more of their banking with us.

Total Group reserves, including retained earnings, increased by \$10 million (4.2%) to \$242.5 million.

Group net interest income increased by \$1.0 million (1.8%), while bad and doubtful debts expense remained low, increasing by \$0.1 million (8.9%) to \$1.8 million.

Bank non-interest income increased by \$1.8 million (12.4%), mainly as a result of intra-group dividend income and insurance commissions. Group non-interest income however decreased by \$1.5 million (6.3%), mainly due to a decrease in property development sales.

Our membership grew by 1.34% to 103,456 members.

Other key outcomes for the financial year:

- the number of products per member has increased significantly; an important achievement given one of our core objectives is to increase the number of members using P&N Bank as their main financial institution;
- our lending portfolio finished the year strongly with two record months of new funding, providing positive momentum going into the new financial year; and
- awareness of the new P&N Bank brand amongst the general public continues to grow with more people considering P&N Bank as a genuine banking alternative to the major banks.

Looking Ahead

The Australian economy remains subdued with low rates of economic growth resulting from the mining construction boom that continues to abate. Unemployment nationally is forecast to remain slightly above 6% and in Western Australia, above the current level of 5%. Interest rates remain at record lows and with minimal change expected to the inflation rate, are unlikely to rise in the near future.

On a national front, political uncertainty is impacting consumer confidence. In conjunction with the below average forecast growth in the Australian economy this will continue to present challenges for P&N in the near term.


Emerging banking trends are heavily reliant on technology and as P&N considers appropriate investments in social media, mobile and analytics we will increasingly look to partner with like-minded organisations to allow us to offer superior technological solutions without having to carry the full investment of creating and developing the technology ourselves.

Acknowledgements

I would like to thank our Board of Directors and particularly the Chair, Paul Gabb for their counsel and support in my first few months with P&N.

I would also like to acknowledge and applaud the passion, commitment and dedication of my Executive team and the staff who work tirelessly for our organisation and for our members. We have a great team and a great culture and I look forward to creating and sharing much success together.

Finally I wish to thank you, our members, for your continued loyalty and support and for promoting the benefits of P&N Bank membership to others. I can assure you of our absolute commitment and dedication to delivering you a prosperous and sustainable organisation, long into the future.



Andrew Hadley
Chief Executive Officer

The Year in Review



Member Services

Over the past 12 months we have introduced and improved a number of products and services and have a full programme of further improvements planned.

Fixed Rate home loans

In September 2013, we launched 2 and 4 year Fixed Rate home loans. As with our 3 and 5 year Fixed Rate home loans, the new products offer a discounted rate for lending with lower loan to valuation ratios.

Platinum Credit Card

In October 2013, we launched the P&N Bank Platinum VISA Credit Card. This card offering is available as a stand-alone product or, as part of the Easypay Plus Home Loan package. The P&N Bank Platinum VISA is a low rate card that gives members access to 24 hour VISA Concierge services, free card replacement worldwide, access to VISA Platinum entertainment and a range of insurance including travel insurance.

Product changes

Over the past 12 months we have implemented a number of other product changes including:

- removal of the \$1.50 monthly VISA debit card fee;
- consolidation of our mortgage offset accounts; and
- introduction of our own bank cheques.

P&N Financial Planning

Our financial planning business has had an exceptionally successful year with significant growth in client numbers and funds under advice and outstanding member satisfaction results.

P&N financial planning is quickly gaining a reputation as one of the leading financial planning dealer groups for superannuation and retirement planning advice in the West Australian market.

P&N Bank Broker Services

Our broker services business also enjoyed a highly successful year. During the period, we made a significant number of changes to our broker offering making P&N a more compelling proposition to our broker partners. This included changes to credit and process policy, product offerings, competitive pricing, additional resourcing and a strong consistent focus on meeting the ongoing needs of both our broker partners and customers.

The Year in Review

Branch Relocations and Refurbishments

In keeping up to date with contemporary banking trends, P&N refurbished four branches during the year - Rockingham, Ocean Keys, Morley and Belmont.

These refurbished branches are modern, open and welcoming and strongly reflect the P&N Bank brand.

Featuring a technology bar, a member lounge area and increased space for service pods, the inviting fit-outs are a departure from the traditional looking bank branch.

With no teller booths, staff utilise a cash recycling dispenser which improves security and allows more time for quality conversations with members.

Our next branch to be refurbished is Success and we have recently relocated our Perth branch to its new home on the ground floor of our Stirling Street Head Office.

New Technology

The most significant project driving our investment focus over the past financial year relates to our member experience with our lending process.

This project is one of the biggest in P&N's history and will deliver significant member benefits both in the short and longer term. New enhancements to our lending service allow members to apply for and receive a response to their lending applications online. With new technology and service improvements that will continue to be rolled out throughout 2014/15, members will enjoy a better experience from enquiry through to funding.

Other major technology projects included:

P&N Bank Website

Our website has continued to provide members with information on our products, services, rates, campaigns and corporate activities and we continue to refine and adapt the content for the benefit of our members. Designed to be more intuitive, visitors can navigate the site not only by products, but by various life scenarios. With our online calculators, the website has proven to be a very easy and accessible tool for mobile and pc web users.



The Year in Review

Social Media

Our social media channels such as Facebook have proven very popular in the past year, growing significantly since launching in March 2013. Providing additional channels for our members to communicate with us over and above our branch network and WA based Contact Centre, P&N has enjoyed ongoing engagement with our members via day to day conversations and successful competitions such as the Picture Perfect WA campaign.

Proactive Webchat

Our proactive webchat has continued to provide the instant opportunity for anyone to chat online to a live member service consultant in our Contact Centre. After a person has been browsing for a certain time in select sections of the P&N Bank website and during the hours of our Contact Centre, a pop up window appears offering the opportunity to chat with a consultant online. Members are also able to click to chat at any time during our Contact Centre hours.

Netlink, MiLink and Phonelink

These popular banking channels continue to be upgraded to enhance our member banking experience. Members can now open new accounts online, activate their new cards via Phonelink and report lost or stolen cards 24 hours a day. A new look Netlink was rolled out in October 2013 with an improved look and member features and benefits that have continued to be refined and improved.

Mobile Banking App

Our highly anticipated P&N Bank app and new mobile site are planned to be launched later in 2014.



Community

During the financial year, P&N Bank again sponsored a number of initiatives to support the WA community. Some of the larger partnerships are summarised below.



Perth Wildcats

A highly successful club on the court, the Perth Wildcats, like us, have a very strong member focus, high member loyalty and a strong association with the WA community.

Our second year as the Official Membership Partner of the Perth Wildcats was completed in June 2014 after the Perth Wildcats achieved their ultimate goal by winning the 2014 NBL Championship. During the season, P&N Bank sponsored the Perth Wildcats Member Day in October, two exciting game nights at the Perth Arena and welcomed coach Trevor Gleeson to an internal training day for staff.

This partnership has proven to be a mutually beneficial collaboration as P&N continued to promote our products and services to the Perth Wildcats membership base throughout the season and to the general public on game nights. P&N Bank will again sponsor the Perth Wildcats as official Membership Partner during the 2014/15 season.

RSPCA WA

P&N again continued to support RSPCA WA as a major sponsor of the Million Paws Walk in May 2014. P&N Bank has been a sponsor of Million Paws Walk for over ten years and a number of our staff took part in the walk to raise money for the RSPCA and the prevention of animal cruelty in WA.

Crime Stoppers WA

We have been a long-time supporter of Crime Stoppers WA, the telephone hotline service that enables members of the community to provide information about criminal activity. Supporting Crime Stoppers is one way we are contributing to the safety of our local community and "Making the name bank a good one".

The Year in Review



Student Scholarships

Each year, P&N Bank conducts a student scholarship program to support four high school students with their studies. Two year 11 students are chosen annually to receive financial assistance and if those winners continue to work hard, their scholarship is renewed in year 12. The 2014 P&N Bank scholarship winners were Amy Whittle from Duncraig Senior High School and Kynan Behan, from Melville Senior High School.

Police Officer of the Year

P&N Bank was again proud to be involved with the Police Officer of the Year Awards as a major sponsor. These important awards recognise the vital role of our dedicated WA Police and also the outstanding contribution of a number of exceptionally committed individuals.

Telethon

P&N Bank were delighted to donate their \$10,000 prize money for winning the AIM West Australian Pinnacle Award for Marketing Excellence to the Channel 7 Telethon Trust. The Channel 7 Telethon Trust financially supports the medical and social welfare of children and young people, as well as funds research into children's diseases.

Other Key Sponsorships

P&N Bank also provides sponsorship and support to many other groups in the police, health, education and community sectors.

Executive Team



Andrew Hadley
Chief Executive Officer



Corrine Alexander
Chief Risk Officer



Mark Smith
General Manager
Human Resources



Dave Spearman
Chief Financial Officer

Accessible Banking

Branches

We have 17 branches in WA, with 15 located within the metropolitan area and two in the regional centres of Bunbury and Mandurah. Our branch network offers home and personal lending, insurance, transactional capability, savings accounts and financial planning services.

Local Contact Centre

Our Contact Centre is located in our Head Office at 130 Stirling Street, Perth. Our consultants can interact with members via phone, online web chat, email, facebook and twitter. The Contact Centre manages around 1,000 phone calls per day and its operating hours are from 8.00am to 6.00pm (WST), Monday to Friday and 9.00am to 5.00pm (WST) on Saturdays.

Online Banking

Through Netlink online banking, our members can view their accounts, transfer money, pay their bills via B_{PAY} or register using B_{PAY} View to see their statements online.

Phone & Mobile Banking

Through Phonenumber telephone banking our members can retrieve account information, transfer money and pay their bills. We also offer MiLink mobile banking, a mobile version of Netlink for web enabled mobile phones and Txtlink SMS banking, which uses SMS technology to send account information to members via their mobile phone.

ATM Network

P&N Bank is a part of the rediATM/NAB ATM network, one of the largest ATM networks in Australia. By using a rediATM, NAB or BOQ ATMs our members are not charged for ATM withdrawals.

Mobile Banking Managers

We can come to your home or workplace, during or after hours, to help you choose the banking products to suit your needs. So you can spend your free time doing the things you want.

Financial Planning

P&N Bank Financial Planning was established to help people make the most of their financial opportunities, offering expert advice in areas such as superannuation, investments, insurance and retirement planning.

Insurance

MemberCare Insurance products include motor vehicle, boat and caravan, home and contents, loan protection and travel insurance. These products made available to members through our affiliation with QBE Insurance Australia. We also provide health insurance options through our affiliation with GMHBA.

Conveyancing

We have our own settlement agency offering a qualified experienced conveyancing team that provides efficient and personalised service to both members and non-members. As well as assisting with general sale and purchase dealings, they also handle change of title transactions due to marriage, divorce, death and name errors.

Foreign Exchange

We can provide our members with a range of foreign exchange services from travellers' cheques and cash passports to foreign currency exchange.

Report of the Directors

Your Directors present their report on the financial statements of Police & Nurses Limited (“the Bank”) and Police & Nurses Limited and its controlled entities (“the Group”) for the year ended 30 June 2014.

Corporate Governance

The Board of Directors (“the Board”) is responsible for the corporate governance of the Group. To ensure the Board can fulfil its responsibilities, it has established guidelines for the operations of the Board and a framework for ensuring internal control and business risk management processes are adequate and ethical standards are appropriate. Unless otherwise stated, all these practices were in place for the entire financial year.

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

- contributing to, evaluating, approving and monitoring strategic direction and business objectives developed in conjunction with management;
- monitoring the Group’s progress against agreed performance measures linked to business objectives and strategies, and comparing these with those of peers in the marketplace;
- contributing to and enhancing the reputation and image of the Group to members/shareholders, the marketplace and the community at large;
- ensuring required frameworks are in place including risk and capital management policies, internal controls, compliance and public reporting; and
- accepting accountability to members/shareholders and responsibility to other stakeholders in the Group.

Directors

The following persons held office as Directors of the Bank during the year and, unless otherwise stated, at the date of this report:

Paul Marshall GABB (Chair from appointment at AGM on 21 October 2013) B.Com (Accounting), CPA, FAICD, Grad Cert (Forensic Accounting)

National Coordinator - Australian Federal Police, 16 years service as a Director of the Bank; 28 years service in Law Enforcement. Board Governance Committee Chair*, Audit Committee member and Remuneration Committee member.

Stephen John MELVILLE (Deputy Chair from appointment at AGM on 21 October 2013) B.Bus (Accounting), FCPA, GAICD

Director - Corporate Services, Department of State Development, 20 years service as a Director of the Bank. Has held senior executive positions in both private and government organisations with considerable experience in a range of accounting, financial management and marketing roles. Audit & Risk Committee Chair*, Risk Committee Chair, Nominations Committee Chair and Board Credit Committee member.

Edwin Roy BRADLEY MBA, B.Bus, GAICD, FCPA, SF Fin

Consultant with 38 years extensive experience in retail banking, strategic planning, corporate banking and risk management. Bachelor’s degree in accounting and business law, post-graduate diploma in economics and financial management plus an MBA. Two years service as a Director of the Bank. Audit & Risk Committee member*, Audit Committee Chair and Board Credit Committee Chair.

Michelle Louise FYFE APM, GAICD Dip (Policing), Dip Public Safety Policing, Dip (Criminal Investigation), Grad Cert (Applied Management), Grad Dip of Executive Leadership (Policing & Emergency Services), Master of Leadership & Management (Policing)

Acting Deputy Commissioner (Specialist Services & Reform) – WA Police. 30 years service as a Police Officer, five years service as a Director of the Bank. Board Governance Committee member and Audit & Risk Committee member*.

Wayne GREGSON APM, BA, MBA, GAICD

Commissioner, Department of Fire & Emergency Services WA, 31 years service as a Police Officer, five years service as a Director of the Bank. Board Governance Committee Member*, Nominations Committee Chair* and Remuneration Committee member.

Report of the Directors

Elizabeth Anne MANLEY RN, B App Sc (Nursing), MBA, FRCNA, FAICD

CEO & Director of Nursing for Residential Aged Care Facility, 14 years service as a Director of the Bank; 43 years service in the nursing/health profession. Audit & Risk Committee member* and Board Governance Committee member.

Karl Joseph O'CALLAGHAN APM, BA, B.Ed (Hons), PhD, GAICD

Commissioner of WA Police. 41 years service as a Police Officer and nine years service as a Director of the Bank. Board Governance Committee member* and Board Governance Committee Chair.

Michael John O'NEILL Dip BAdmin, FACID, CIM, SF Fin (appointed at AGM on 21 October 2013)

Acting Managing Director for Gindalbie Metals Ltd, over 40 years extensive experience in retail and corporate banking, strategic planning, lending and liquidity control, treasury, and special projects. Diploma in Business Administration, Certificate of Marketing, post graduate diploma in financial management. One year service as a Director of the Bank. Member of Audit Committee, Risk Committee and Board Credit Committee.

Alan Craig PHILP Dip Nursing & Midwifery, BA HSc, Master of Public Health, GAICD

Director, Research Liaison and Innovation Section, Acute Care Division for Dept of Health, 34 years in nursing profession, 38 years as a member of the Bank. Six years service as a Director of the Bank. Audit & Risk Committee member* and Risk Committee member.

Eric Laurence SMITH FAICD, FAMI

Detective Inspector – WA Police. Certificate in Police Studies, Diploma of Policing, Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Graduate Certificate of Business (Leadership), Graduate Diploma of Business (Leadership & Management). 20 years service as a Director of the Bank; 38 years service as a Police Officer. Chair of the Board until 21 October 2013, Audit & Risk Committee member*, Board Governance Committee member* and Remuneration Committee Chair.

Gloria Jean SUTHERLAND B App Sc (Nursing), Post Grad Dip Health Education, Master of Science, GAICD, MAMI (term completed 21 October 2013)

Strategic consultant with a Perth-based business and advisory consultancy; health leadership experience at regional, state and national levels, 40 years service in nursing/health profession. Three years service as a Director of the Bank. Audit & Risk Committee member.

Each Director holds one member share in the Bank.

*Committee structures and memberships were changed on 4 November 2013 to comply with anticipated prudential requirements. The Audit & Risk Committee was separated into the Audit Committee and Risk Committee, and the Board Governance Committee was separated into the Board Governance and Remuneration Committees. Any Committee positions held prior to 4 November 2013 are marked with *.

Company Secretary

A E (Fred) HUIS FCA, SF Fin, GAICD

Over thirty years service as the Bank's Company Secretary and Chief Executive Officer (ceased as Secretary on 31 December 2013).

Elizabeth Joy LAWTON LLB

Half year service as the Bank's Company Secretary (commenced as Secretary on 1 January 2014).

Composition and Meetings of the Board

The Board's composition, its meetings and conduct are determined in accordance with the Bank's Constitution, and the following:

- the Board comprises ten non-executive members with an appropriate range of expertise, skills and qualifications;
- each Board member maintains their own skills relevant to the business of the Bank; and
- the Board has an independent process for the evaluation of its own and individual Board member's performance.

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2014 and the number of meetings attended by each Director.

Report of the Directors

Director	Directors' Meetings		Audit & Risk Committee Meetings		Board Governance Committee Meetings		Audit Committee Meetings		Risk Committee Meetings		Remuneration Committee Meetings		Board Credit Committee Meetings	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
E L Smith	12	11	1	1	1	1	*	*	*	*	3	3	*	*
P M Gabb***	12	11	*	*	1	1	3	2	*	*	3	2	*	*
E R Bradley	12	11	1	1	*	*	3	3	*	*	*	*	3	3
M L Fyfe	12	11	1	1	4	4	*	*	*	*	*	*	*	*
W Gregson**	12	11	*	*	1	0	*	*	*	*	3	3	*	*
E A Manley	12	11	*	*	4	3	*	*	*	*	*	*	*	*
S J Melville	12	12	1	1	*	*	*	*	3	3	*	*	3	3
K J O'Callaghan	12	11	*	*	5	5	*	*	*	*	*	*	*	*
M J O'Neill	9	8	*	*	*	*	3	2	3	3	*	*	3	3
A C Philp	12	12	1	1	*	*	*	*	3	3	*	*	*	*
G J Sutherland	3	3	1	1	*	*	*	*	*	*	*	*	*	*

A Number of meetings held during the time the director held office or was a member of the Committee during the year

B Number of meetings attended

* Not a member of the relevant Committee

** During the year the Nominations Committee held one meeting, which was fully attended. This meeting was chaired by Mr Wayne Gregson and included two independent attendees.

*** During the year Mr Paul Gabb attended two meetings of the Board Governance Committee and three meetings of the Risk Committee as an observer.

Director Induction Program

The Directors have established a comprehensive induction program for newly elected or appointed Directors. The program assists new Directors to gain an understanding of the Group's operations and the financial environment. The Directors also participate in further education to ensure that, in accordance with both strategic and regulatory business, they are capable of discharging the responsibilities of their office.

Directors' Remuneration

Board members are remunerated as per Division 17 of the Constitution. The total remuneration for the Board is determined each year by the members/shareholders at the Annual General Meeting and divided amongst the Directors in such a manner as the Board determines.

Audit Committee

The Board has established the Audit Committee to assist in the execution of its responsibilities. The Committee comprises three Board members. This Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to:

- the reliability and integrity of financial information for inclusion in public financial statements;
- the review of audit plans to ensure they cover material risks and financial reporting requirements;
- the independence, effectiveness and adequacy of the external and internal auditors; and
- the appointment and removal of external and internal auditors.

The Committee reports to the full Board after each Committee meeting.

Report of the Directors

Risk Committee

The Board has established the Risk Committee to assist in the execution of its responsibilities. The Committee comprises three Board members. This Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to the establishment, monitoring, oversight and maintenance of the Bank's risk management framework. The Committee also monitors and oversees regulatory matters, operational risk, and market, capital and liquidity risk. The Committee reports to the full Board after each Committee meeting.

Board Governance Committee

The Board has established a Board Governance Committee to assist it by providing informed feedback to the Board on its performance, and to establish a framework to assist the Board to assess the performance of each Director and the Chief Executive Officer. The Committee comprises a minimum of three Directors. This Committee has written terms of reference, which outlines its roles and responsibilities to enable it to assist the Board in relation to maintaining practices in compliance with the requirements of the prudential standards. An appraisal of the Board's performance is conducted annually, with an independent consultant engaged to facilitate the process every third year. The Chair of the Board through the Board Governance Committee is responsible for the annual assessment methodology of the Board's performance and that of each individual Board member ensuring that both the Board and individual Board members meet the requirements of the prudential standards. The Committee reports to the full Board after each Committee meeting.

Remuneration Committee

The Board has established a Remuneration Committee to assist in the execution of its responsibilities. The Committee comprises three Board members. The Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to remuneration related practices and policies. The Committee reports to the full Board after each Committee meeting.

Board Credit Committee

The Board has established a Board Credit Committee to assist in the execution of its responsibilities. The Committee comprises three Board members. The Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in making decisions on lending submissions that are to be considered by the Board, according to certain thresholds and criteria. The Committee reports to the full Board after each Committee meeting.

Nominations Committee

The Board has established a Nominations Committee to conduct Fit & Proper assessments of the Group's Directors who renominate by rotation and of any other person nominating as a candidate for election as Director. The Committee has written terms of reference, which outlines its roles and responsibilities. The Committee comprises a Chairperson and two independent members. None of the Nominations Committee members are employees of the Bank.

Group Risk Management

The purpose of Group risk management, which includes all subsidiaries of the Bank, is to ensure that appropriate strategies and processes are developed to mitigate risks to the organisation.

The risk management systems are maintained with the aim of achieving the following goals:

- identify, analyse and manage risk;
- through risk records provide a clear picture of the risk profile of the Group; and
- provide relevant information to management and the Board for decision making.

All business managers are responsible for risk management in their day-to-day activities and use the risk management framework which assists in appropriately balancing both risk and reward components.

Ethical Standards

Board members are expected to act in accordance with the Constitution, any Board approved Code of Conduct and Conflict of Interest Policy.

Any Board member who has a material pecuniary or non-pecuniary interest in any matter before the Board will neither be present at the Board meeting while the matter is considered nor vote on the matter.

Principal Activities

The principal activities of the Group and the Bank were the provision of financial and associated services to members and property development. There was no significant change in these activities during the year.

Report of the Directors

Review of Operations

During the financial year, total assets of the Group increased by \$64,926,000 to \$2,910,207,000, members' deposits increased by \$260,234,000 to \$2,292,648,000, and loans and advances increased by \$63,551,000 to \$2,449,544,000.

The profit of the Group and the Bank for the financial year after income tax and before minority interest was \$9,110,000 (2013: \$13,103,000) and \$9,830,000 (2013: \$12,125,000) respectively.

Pursuant to the rules of the Bank, no dividend has or shall be paid in respect of any share.

Future Development and Results

Future financial periods are likely to include further improvements in the provision of services to members and a managed growth in financial performance.

Bad and Doubtful Debts

Before the financial statements were completed, the Directors took reasonable steps to ascertain what action has been taken in relation to the writing off of bad debts and the making of provisions for impairment and have caused all known bad debts to be written off and adequate provision to be made for impairment.

Assets

Before the financial statements were completed, the Directors took reasonable steps to ascertain whether any assets were unlikely to realise, in the ordinary course of business, their value as shown in the accounting records. At the date of this report, the Directors are not aware of any circumstances which would render the value attributed to any assets in the financial statements misleading.

Significant Changes

There has been no significant change in the state of affairs of the Group or Bank during the financial year.

Events Subsequent to the End of the Financial Year

No matter or circumstance has arisen since the end of the financial year that has or may significantly affect the operations, results of those operations, or the state of affairs of the Group or the Bank.

Environmental Regulation

The Group is subject to environmental regulation in respect of its property developments. All developments have been undertaken in compliance with the necessary planning and environmental regulations.

Register of Directors' Interests

The Bank keeps a register containing information about the Directors, including details of each Director's interest in securities issued by the Bank. The register is open for inspection:

- by any member of the Bank, without fee; and
- by any other person, on payment of the amount (if any) prescribed by the Bank's rules.

Insurance of Officers

During the year, a premium was paid in respect of a contract insuring Directors and officers of the company against liability. The officers of the company covered by the insurance contract include the Directors, executive officers, company secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities it covers is prohibited by a confidentiality clause in the contract.

Auditor's Independence Declaration

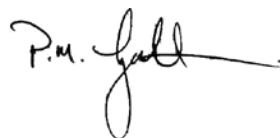
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

Rounding of Amounts

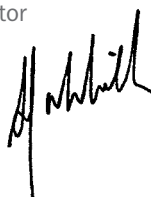
The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars or in certain cases to the nearest dollar.

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the Board of Directors.



P M GABB
Director



S J MELVILLE
Director

25 August 2014
PERTH WA

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Limited for the year ended 30 June 2014, 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.

This declaration is in respect of Police & Nurses Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Justin Carroll'.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
25 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

Income Statements

YEAR ENDED 30 JUNE 2014	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2014	2013	2014	2013
		\$000	\$000	\$000	\$000
Interest revenue	3	146,417	164,087	150,893	163,428
Interest expense	3	86,304	105,008	90,313	103,127
Net interest income		60,113	59,079	60,580	60,301
Non-interest revenue					
Loan fee revenue		3,668	3,522	3,668	3,522
Financial services fees		4,217	4,560	4,217	4,560
Financial planning fees		2,850	2,407	-	-
Amenity fees		988	1,463	-	-
Other fee revenue		844	1,281	499	811
Insurance commissions		3,713	3,348	3,713	3,348
Other commissions		1,365	844	1,365	844
Revenue from sale of property developments		2,893	5,639	-	-
Dividend revenue		529	525	1,594	590
Other income					
Bad debts recovered		616	409	616	409
Net gain on disposal of property, plant and equipment		-	-	-	-
Other income		1,174	385	559	358
Total non-interest revenue and other income		22,857	24,383	16,231	14,442
Total income		82,970	83,462	76,811	74,743
Bad and doubtful debts expense	8(b)	1,813	1,665	1,813	1,665
Other expenses					
Auditor's remuneration	28	662	551	617	520
Finance costs		428	381	428	381
Depreciation and amortisation		4,706	3,926	4,433	3,663
Fees and commissions		6,696	7,189	6,644	7,088
Property development costs		3,015	4,266	-	-
Employee benefits expense		30,581	26,398	28,197	24,373
Information technology costs		4,194	3,947	4,194	3,947
Marketing costs		4,099	4,583	3,995	4,546
Other general and administration costs		8,239	8,483	7,036	7,503
Loss on revaluation of investment property		450	480	-	-
Loss on disposal of plant and equipment		335	155	335	155
Rental - operating leases		5,823	5,730	5,771	5,496
Total expenditure		71,041	67,754	63,463	59,337
Profit before income tax		11,929	15,708	13,348	15,406
Income tax expense	4	2,819	2,605	3,518	3,281
Profit for the year		9,110	13,103	9,830	12,125
(Profit)/loss attributable to non-controlling interests		(19)	(8)	-	-
Profit attributable to members		9,091	13,095	9,830	12,125

The above income statements should be read in conjunction with the accompanying notes.

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2014	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Profit for the year		9,110	13,103	9,830	12,125
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	23c	839	1,971	839	1,971
Income tax relating to this item	4(c)	(252)	(591)	(252)	(591)
Items that will not be reclassified to profit or loss		-	-	-	-
Other comprehensive income for the year, net of tax		587	1,380	587	1,380
Total comprehensive income for the period		9,697	14,483	10,417	13,505
Total comprehensive income for the year is attributable to:					
Members of the Bank		9,678	14,475	10,417	13,505
Non-controlling interests		19	8	-	-
		9,697	14,483	10,417	13,505

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheets

AS AT 30 JUNE 2014	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2014	2013	2014	2013
		\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents	5	63,879	28,077	24,435	11,395
Receivables due from other financial institutions	6	292,036	317,533	292,036	317,533
Trade and other receivables	7	23,684	31,822	10,282	18,288
Loans and advances	8	2,449,544	2,385,993	2,450,277	2,385,993
Inventories	10	36,822	39,001	-	-
Available-for-sale financial assets	11	3,251	2,951	3,188	2,888
Due from controlled entities	12	-	-	39,202	41,170
Property, plant and equipment	13	7,215	6,342	7,152	6,177
Investment properties	14	22,608	22,985	-	-
Other financial assets	15	-	-	3,083	3,083
Intangible assets	16	11,168	10,577	9,247	8,470
Deferred tax assets	17	-	-	1,379	1,681
Total assets		2,910,207	2,845,281	2,840,281	2,796,678
Liabilities					
Members' deposits	18	2,292,648	2,032,414	2,293,736	2,033,187
Trade and other payables	19	42,864	61,572	17,985	40,732
Derivative financial instruments	9	1,949	2,787	1,949	2,787
Current tax liabilities		2,524	1,949	2,486	1,950
Borrowings	20	317,438	503,746	-	201,022
Due to controlled entities	12	-	-	288,416	292,039
Provisions	21	6,524	5,789	3,505	3,174
Deferred tax liabilities	22	3,801	4,227	-	-
Total liabilities		2,667,748	2,612,484	2,608,077	2,574,891
Net assets		242,459	232,797	232,204	221,787
Members' funds					
Reserves	23	219,368	203,766	219,368	203,766
Retained earnings	23	22,517	28,476	12,836	18,021
Non-controlling interests		574	555	-	-
Total members' funds		242,459	232,797	232,204	221,787

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2014	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Total members' funds (equity) at the beginning of the financial year		232,797	218,349	221,787	208,282
Changes in the fair value of cash flow hedges, net of tax	23(c)	587	1,380	587	1,380
Net income recognised directly in members' funds (equity)		587	1,380	587	1,380
Profit for the year		9,110	13,103	9,830	12,125
Total comprehensive income for the year		9,697	14,483	10,417	13,505
Dividends paid to non-controlling interests (35 cents per share)	23	(35)	(35)	-	-
Total members' funds (equity) at the end of the financial year		242,459	232,797	232,204	221,787
Total comprehensive income for the year is attributable to:					
Members of the Bank		9,678	14,475	10,417	13,505
Non-controlling interests		19	8	-	-
		9,697	14,483	10,417	13,505

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2014	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Cash flows from operating activities					
Interest received from loans		133,423	150,289	133,475	150,289
Interest received from investments		13,030	15,229	17,454	14,571
Commissions and other income received		21,745	20,921	14,021	12,292
Borrowing costs – members		(69,518)	(79,622)	(69,560)	(79,622)
Borrowing costs – banks		(16,605)	(24,438)	(20,572)	(26,621)
Payments to employees and suppliers (inclusive of GST)		(71,588)	(68,679)	(71,394)	(56,366)
Income tax outflow		(2,922)	(3,288)	(2,931)	(4,387)
Net cash inflow from operating activities	24(a)	7,565	10,412	493	10,156
Cash flows from investing activities					
Dividends received		529	525	1,594	590
(Increase) / decrease in loans and advances		(64,745)	(190)	(65,478)	(190)
Net movement in interest-earning deposits		25,497	(20,404)	25,497	(20,404)
Net movement in other investments		(309)	4,039	(300)	-
Payments for property, plant and equipment		(3,253)	(1,680)	(3,254)	(1,650)
Payments for intangible assets		(3,385)	(1,631)	(3,385)	(1,631)
Loans from controlled entities		-	-	(1,655)	(93,656)
Net cash inflow / (outflow) from investing activities		(45,666)	(19,341)	(46,981)	(116,941)
Cash flows from financing activities					
Net increase in member's deposits		260,194	181,768	260,509	182,241
Repayments to other financial institutions		(186,332)	(170,958)	(201,022)	(72,158)
Member shares issued		56	41	56	41
Member shares redeemed		(15)	(14)	(15)	(14)
Net cash inflow / (outflow) from financing activities		73,903	10,837	59,528	110,110
Net increase in cash and cash equivalents held		35,802	1,908	13,040	3,325
Cash and cash equivalents at the beginning of the year		28,077	26,169	11,395	8,070
Cash and cash equivalents at the end of the year	24(b)	63,879	28,077	24,435	11,395

The above cashflow statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Police & Nurses Limited (“the Bank”) as an individual entity and the consolidated entity consisting of Police & Nurses Limited and its subsidiaries (“the Group”).

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The Bank and the Group are for-profit entities for the purpose of preparing the financial statements. The presentation currency is Australian dollars.

Compliance with IFRS

The parent entity and consolidated entity financial statements and notes also comply with IFRS except that the entities have elected to apply the relief provided in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Comparatives

Comparative balances in the income statement and balance sheet have been reclassified where appropriate with no impact on profit or net assets of the prior year to enhance comparability and understanding of the financial statements.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2013:

AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments*

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*

AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Disclosures - Offsetting Financial Assets and Financial Liabilities*

AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle*

The adoption of these standards only affected the disclosures in the notes to the financial statements.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The group also elected to adopt the following standard early:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition disclosures (effective from 1 January 2017)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group as at 30 June each year. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date at which control is transferred out of the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(z)). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Investments in subsidiaries are carried at cost in the Bank's financial statements.

Investments in subsidiaries are carried at cost in the Bank's financial statements.

All intercompany balances and transactions, including unrealised profits and losses arising from intra-Group transactions, have been eliminated fully.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(ii) Joint arrangements

Under AASB 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group's investment in Eagle Bay Joint Venture is classified as a joint operation and is accounted for using the Group's proportionate interest in the jointly-held assets, liabilities, revenues and expenses in the financial statements under the appropriate headings. Details of the investment are set out in note 29.

(c) Loan provisioning

All loans are subject to recurring review and assessment for possible impairment. All bad debts are written off in the period in which they are identified. Specific provisions are raised for losses that have already been incurred for loans that are known to be impaired. The required provision is estimated on the basis of historical loss experience for assets with similar credit characteristics. The historical loss experience is adjusted based on current observable data.

The Group and the Bank make judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a loan pool before the decrease can be identified with an individual loan in that pool. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in the Group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the pool when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in assumptions used for estimating future cash flows could result in a change in provisions for loan impairment and have a direct impact on the charge to the income statement.

Notes to the Financial Statements

30 JUNE 2014

(d) Property, plant and equipment

Land and buildings (except for investment properties – refer to note 1(f)) are shown at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	50 years
Leasehold improvements	3 – 10 years
Plant and equipment	3 – 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Any investment allowance applicable to depreciable assets is offset against income tax expense.

(e) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

(f) Investment property

Investment property, principally comprising freehold residential buildings, is held for long-term amenities fee income and is not occupied by the Group. Investment property is carried at fair value, representing open-market value

determined annually. Changes in fair value are recorded in the income statement as part of other income or expenses.

(g) Investments and other financial assets

The Group classifies its investments as either available-for-sale or held-for-trading and these are initially recognised at fair value plus acquisition charges. The classification depends on the purpose for which the investments were acquired.

After initial recognition, investments are remeasured at fair value. Changes in available-for-sale financial assets are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative change in fair value, previously reported in equity, is included in earnings. Changes in held-for-trading investments are recognised in earnings.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. Where investments are not actively traded, fair value is established by using other market accepted valuation techniques. If the fair value cannot be reliably measured using other techniques, the investment is carried at cost.

(h) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of any entity include the carrying amount of goodwill relating to the entity sold.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

(ii) Computer software costs

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls.

The Group carries capitalised software assets at cost less amortisation and any impairment losses, if any. Costs capitalised include external direct costs of materials and services, direct payroll and payroll related costs of employees' time spent on the implementation of the software.

These assets are amortised over the estimated useful lives (three to ten years) on a straight-line basis at a rate applicable to the expected useful life of the asset. Software maintenance costs continue to be expensed as incurred.

Any impairment loss is recognised in the income statement when incurred.

(iii) Client list

Client lists acquired as part of a business combination are recognised separately from goodwill. The client list is carried at its fair value at the date of acquisition less accumulated amortisation and any impairment losses. Amortisation is calculated based on the length of time of estimated benefits to the Group of the client list, which is ten years.

Any impairment loss is recognised in the income statement when incurred.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Temporary differences arising from the initial recognition of an asset or a liability is not recognised if they arose in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss. Details about the tax sharing agreement are disclosed in note 4.

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

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowances reduce income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Tax consolidation legislation

The Bank and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003, with the Bank as the head entity of the tax consolidated Group.

The head entity, the Bank, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Bank also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and

unused tax credits assumed from controlled entities in the tax consolidated Group.

Entities within the tax consolidated Group have entered into a tax-sharing agreement with the head entity. Under the terms of the tax arrangement, the Bank and each of the entities in the tax consolidated Group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated Group.

(k) Employee benefits

The liability for long service leave and annual leave is recognised in the provision for employee benefits and measured as at the present value of the expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with term to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(l) Interest

Interest on members' loans is calculated on an accrual basis using the effective interest method except for non performing loans where interest is reduced to nil. Interest on members' deposits is calculated on an accrual basis using the effective interest method and the accrual is included in the value of members' deposits disclosed in these financial statements.

(m) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and short-term deposits with an original maturity of three months or less. Cash on hand, cash at bank and short-term deposits are stated at nominal value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

For the purposes of the cash flow statement, cash and cash equivalents are reported net of outstanding bank overdrafts.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised

cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue (inclusive of loan origination fees and transaction costs) is recognised as interest accrues using the effective interest method, which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Fees and commissions related to services provided over a period are recognised on an accruals basis.

For property development activities, revenue is recognised when risks and rewards have passed to the buyer, which is determined to be at least when there is a signed unconditional contract of sale and the work on the property development is complete. All marketing and direct selling costs are expensed as incurred.

Dividends receivable from controlled entities are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(g).

Amenities fee revenue, included in other fee revenue, is payable by a resident of the investment property as consideration for the right to the exclusive use of the dwelling occupied by the resident. This revenue is accrued on a daily basis at a percentage of the estimate of the value of the dwelling at balance sheet date. This revenue is due for payment by a resident when a new lease is granted to the subsequent resident or 36 months after the dwelling is vacated.

(p) Inventories

Land held for resale is stated at the lower of cost and net realisable value. Cost includes the cost of acquisition, development and borrowing costs during development. Development costs are allocated to individual lots on the basis of the proportion of each lot's sales value relative to total expected development sales. When development is complete borrowing costs and other holding expenses are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Derivatives

The Group uses derivative financial instruments such as interest rate swaps to avoid or minimise possible adverse financial effects of movements in interest rates.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value in line with market fluctuations. The unrealised gain or loss on remeasurement is immediately recognised in the income statement as an adjustment to interest expense, except where hedge accounting applies.

Hedge accounting

When a derivative is designated as a hedge for accounting purposes, the Group documents the relationship between the derivative and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge type and risk	Accounting treatment
<i>Fair value hedge</i> Exposure to changes in the fair value of a recognised asset or liability or committed transaction.	Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
<i>Cash flow hedge</i> Exposure to variability in cash flows associated with a highly probable forecasted transaction or a committed transaction.	<p>The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.</p> <p>Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, for instance, when the forecast transaction that is hedged takes place.</p>

Hedge accounting is discontinued when the hedging instrument expires or no longer qualifies for hedge accounting or is terminated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is immediately transferred to profit or loss.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair values of financial instruments that are traded in active markets are based on quoted market prices at the balance sheet date. The fair value of financial instruments not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(s) Borrowings

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 income statement over the period of the borrowings using the effective interest method.

Interest is accrued over the period it becomes due and is recorded as part of trade and other payables.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Finance costs incurred relate to facility fees paid to other financial institutions.

(u) Loan securitisation

The Bank, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors.

The Bank receives fees for various services provided to the program on an arm's length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The Bank also provides arm's length interest rate swaps and liquidity facilities to the program in accordance with APRA Prudential Guidelines. In addition, the Bank may receive residual income, comprising mortgage loan interest (net of swap payments) not due to the investors less trust expenses.

The timing and amount of the swap cash flows and the residual income cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swaps and the residual income receivable are not recognised as assets and no gain is recognised when loans are sold. The swap income/expense and residual income are therefore recognised when receivable/payable. The residual income is included in other non-risk fee income as profit on the sale of loans.

(v) Other payables

Lease loan sum liability, included in other payables, represents the funds received from incoming residents to the investment property in respect of the lease for life granted to the resident of each dwelling. These amounts are interest free and are repayable either when a new lease is granted to the subsequent resident (from a new lease loan sum received from the subsequent resident), or 36 months after the dwelling is vacated.

All other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Loan origination fees and transaction costs

Loan origination fees and transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability are recognised at inception and included in the carrying amounts. These fees and transaction costs are deferred over the expected life of the instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. This applies to all financial assets or liabilities except for those that are measured at fair value through profit or loss.

(x) Other receivables

Other receivables, including receivables from related parties, are stated at their amortised cost less impairment losses (refer note 1(i)).

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

(z) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Notes to the Financial Statements

30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(aa) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(bb) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(cc) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(dd) New accounting standards

There are no new accounting standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements

30 JUNE 2014

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Loan provisioning

Loan provisions are calculated for loans where objective evidence of impairment is present. The calculation is based on a combination of the Group's historical bad debt write off trends according to risks which are grouped based on credit risk gradings, considering recent trends that might suggest that past cost information may differ from future write offs and by determining future cash flows and discounting these cash flows where the recovery will exceed 12 months. The Group has provided for all loans where there is objective evidence of impairment and security is less than the loan due.

Factors that could impact the estimated bad debt write off trend include interest rates, levels of unemployment, legislative changes and the status of the housing market.

Refer to note 8 and 1(c) for more details.

(ii) Estimated fair values of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations at least every two years, with a Directors' valuation done in between. At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The key assumptions used in this determination are set out in note 14.

(iii) Carrying value of goodwill and client list

The Group carries its goodwill and client list at fair value at the date of acquisition less any accumulated impairment loss or amortisation recognised in profit or loss.

The key assumptions used in the determination of impairment loss and amortisation are set out in note 16.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has not made judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

Notes to the Financial Statements

30 JUNE 2014

3. OPERATING PROFIT

The following tables show the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Monthly averages are used provided they are representative of the Group's operations during the year.

CONSOLIDATED						
Interest revenue and interest expense	2014			2013		
	Average balance \$000	Interest \$000	Average interest rate %	Average balance \$000	Interest \$000	Average interest rate %
Interest earning assets						
Deposits with other banks/ ADIs	402,432	13,030	3.24%	371,566	15,230	4.10%
Loans and advances	2,426,212	133,387	5.50%	2,392,750	148,857	6.22%
	2,828,644	146,417	5.18%	2,764,316	164,087	5.94%
Interest bearing liabilities						
Members' deposits	2,200,744	69,699	3.17%	1,970,331	76,506	3.88%
Borrowings from other banks/ ADIs	424,271	16,605	3.91%	590,519	28,502	4.83%
	2,625,015	86,304	3.29%	2,560,850	105,008	4.10%
Analysis of net interest income						
Net interest income	60,113			59,079		
Average interest-earning assets	2,828,644			2,764,316		
Net interest margin ⁽¹⁾	2.13%			2.14%		
Spread ⁽²⁾	1.89%			1.84%		

(1) Net interest margin represents net interest income as a percentage of the relevant average interest-earning assets.

(2) Spread represents the difference between the comparable average interest rates earned and paid.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	4,117	4,317	3,859	4,184
Deferred tax	(677)	262	51	462
Under / (over) provided for current tax in prior years	(621)	(1,974)	(392)	(1,365)
Income tax expense	2,819	2,605	(3,518)	3,281
Deferred income tax expense / (revenue) included in income tax expense comprises:				
(Increase) / decrease in deferred tax assets (note 17)	(515)	332	(337)	480
Increase / (decrease) in deferred tax liabilities (note 22)	(162)	(70)	388	(18)
	(677)	262	51	462
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	11,929	15,708	13,348	15,406
Prima facie income tax calculated at 30% (2013: 30%)	3,579	4,712	4,004	4,622
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non deductible entertainment	-	1	-	1
Tax offset for franked dividends	(255)	(253)	(254)	(253)
Sundry items	116	119	160	276
	3,440	4,579	3,910	4,646
Under / (over) provision in previous year, relating to:				
Research and development tax incentive	(262)	(927)	(262)	(927)
Other	(359)	(1,047)	(130)	(438)
Income tax expense	2,819	2,605	3,518	3,281
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited directly to equity (note 17 and 22)	251	(591)	251	(591)
(d) Franking credits				
Franking credits based on a tax rate of 30%	65,291	62,176	65,241	62,059

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the current tax liability; and
- (ii) franking debits that will arise from the refund receivable of the amount of the current tax asset.

The tax consolidated amounts include franking credits that would be available to the Bank if distributable profits of subsidiaries were paid as dividends.

Notes to the Financial Statements

30 JUNE 2014

4. INCOME TAX EXPENSE (cont'd)

(e) Tax consolidation legislation

The Bank and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy on implementation of the legislation is set out in Note 1 (j). On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, the Bank. Under the terms of this agreement, the wholly-owned entities will fully compensate the Bank for any current tax payable assumed and are compensated by the Bank for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Bank under the tax consolidation legislation. The amounts receivable/payable is recognised as tax-related receivable or payable by the Bank (see note 12).

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	1,174	901	1,153	901
Cash and deposits at call with banks	58,139	21,811	18,716	5,129
Cash and deposits at call with other ADIs	4,566	5,365	4,566	5,365
	63,879	28,077	24,435	11,395
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits - banks	250,308	255,992	250,308	255,992
Interest earning deposits - other ADIs	41,728	61,541	41,728	61,541
	292,036	317,533	292,036	317,533
The deposits have an effective interest rate of 2.5% to 5.03% (2013: 2.8% to 6.9%).				
The majority of the above amounts are expected to be recovered less than one year of the balance sheet date.				
7. TRADE AND OTHER RECEIVABLES				
Interest receivable	1,234	1,270	1,234	1,270
Prepayments	1,882	1,652	1,872	1,641
Amenities and reserve fund fees	9,415	8,882	-	-
Member transaction clearing	1,372	46	1,372	46
Land and property development debtors	3,608	4,337	-	-
Other	6,173	15,635	5,804	15,328
	23,684	31,822	10,282	18,288
The majority of the above amounts are expected to be recovered more than twelve months of the balance sheet date.				

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
8. LOANS AND ADVANCES				
Revolving credit	89,073	104,248	89,806	104,248
Term loans	2,359,230	2,283,124	2,359,230	2,283,124
Related parties (a)	4,261	2,604	4,261	2,604
	2,452,564	2,389,976	2,453,297	2,389,976
Provision for impairment (b)	(3,020)	(3,983)	(3,020)	(3,983)
Net loans and advances	2,449,544	2,385,993	2,450,277	2,385,993

All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis. The Bank sells mortgage loans via securitisation programs which it manages and from which it derives management fee income.

As at 30 June 2014, securitised loans under management by the Bank amounted to \$646,804,639 (2013: \$446,961,824) which are included in both the revolving credit and term loans above.

This includes \$85,887,250 (2013: \$123,451,271) of loans securitised to the Pinnacle Series Trust 2010-T1, \$216,947,471 (2013: Nil) of loans securitised to the Pinnacle Series Trust 2013 – T1, and \$343,969,918 (2013: Nil) of loans securitised to the Pinnacle Series Trust 2014 – SST.

All trusts are consolidated as part of the Group (note 15). In accordance with AASB 139 the mortgages securitised in the trusts remain on the balance sheet of the Bank.

Maturity period at 30 June 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Not later than one year	174,415	169,890	173,682	169,890
One year to five years	112,151	109,242	112,884	109,242
Over five years	2,162,978	2,106,862	2,163,711	2,106,862
	2,449,544	2,385,993	2,450,277	2,385,993

The maturity tables are based on contractual terms.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
(a) Aggregate amounts receivable from related parties				
Key management personnel (as defined in note 27) and their related parties	4,261	2,604	4,261	2,604
	4,261	2,604	4,261	2,604
(b) Provision for impairment				
Specific provision				
Opening balance	3,983	5,587	3,983	5,587
Bad debts previously provided for written off	(2,776)	(3,269)	(2,776)	(3,269)
Bad and doubtful debts provided for during the year	1,813	1,665	1,813	1,665
Closing balance	3,020	3,983	3,020	3,983
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	522	563	522	563
Personal loans	1,103	1,243	1,103	1,243
Home loans	275	386	275	386
Property Finance	876	1,077	876	1,077
	2,776	3,269	2,776	3,269
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps - cash flow hedges (liabilities)	1,949	2,787	1,949	2,787

(a) Terms and conditions

At balance sheet date, the Bank has interest rate swaps with a notional amount of \$274 million (2013: \$215 million), on which it pays 2.73% to 5.45% (2013: 2.80% to 6.87%) interest and receives Bank Bill swap rates calculated on the notional amount. The swaps are used to protect the Bank from movements in interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance sheet date. The swaps expire between July 2014 and December 2018 and the related cash flows are expected to occur in the following periods:

Less than one year	843	425	843	425
More than one year but less than two years	532	2,094	532	2,094
More than two years but less than five years	574	268	574	268
	1,949	2,787	1,949	2,787

(b) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

All of the Bank's interest rate swaps are classified as level 2.

Notes to the Financial Statements

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CONSOLIDATED

10. INVENTORIES

Land held for sale

2014

Group inventory

Share of joint venture inventory

2013

Group inventory

Share of joint venture inventory

	Land acquisition costs \$000	Holding costs \$000	Development costs \$000	Total \$000
Group inventory	29,358	2,313	2,266	33,937
Share of joint venture inventory	1,100	-	1,785	2,885
	30,458	2,313	4,051	36,822
Group inventory	31,735	514	3,287	35,536
Share of joint venture inventory	312	-	3,153	3,465
	32,047	514	6,440	39,001

Two Rocks inventory is pledged as security for borrowings of \$6,316,029 (2013: \$8,364,192).

The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories were nil (2013: Nil).

“The Reef” at Two Rocks

1. During the year 11 lots (2013: 17 lots) were sold and settled.

“The Enclave” at Eagle Bay

1. During the year 4 lots (2013: 3 lots) were sold and settled.
2. Titles for the remaining 18 unsold lots are currently held.
3. The share of the joint venture held is 33.33%.

Approximately one quarter of inventory is expected to be recovered in less than 12 months after the balance sheet date.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in Cuscal (a)	2,888	2,888	2,888	2,888
Investment in "Heron Park" at Harrisdale (b)	63	63	-	-
Investment in Super Myway Pty Ltd (c)	300	-	300	-
	3,251	2,951	3,188	2,888

(a) Unlisted securities – investment in Cuscal

Cuscal is an unlisted public company. The only information it provides are annual audited financial statements and unaudited special purpose half year financial statements. Under Cuscal's constitution there are no limitations as to who the Bank may sell its shares to, however, Cuscal is primarily owned by mutual ADIs and trading in its shares is very limited and information on such trading that occurs is confidential to the parties involved. In these circumstances the Bank has determined the fair value of its shares in Cuscal at their carried cost.

(b) "Heron Park", Harrisdale

P&N Landreach owns a 5.56% interest in the Heron Park development in Harrisdale. This ownership includes 62,500 shares valued at \$1 each. These shares are measured at cost as the shares are able to be sold, however they must only be sold to those other parties involved in the development as per the agreement.

P&N Landreach advanced a \$2,939,141 (2013: \$3,937,500) interest free loan to the syndicate with no commitment to advance any further amounts. This loan is included in trade and other receivables (note 7).

The first stage of the development construction has been completed, with titles for 612 lots now received. Further construction work is being undertaken in a staged manner.

(c) Unlisted securities – investment in Super Myway Pty Ltd

The Bank made an investment in Super Myway in June 2014 and owns 3.46% of the company. Super Myway is an unlisted private company and as such there are no publicly available audited financial statements or share valuations. Under Super Myway's constitution, there are no limitations as to whom the company may sell its shares to, however, Super Myway is primarily owned by its employees, relatives and friends, and trading in its shares is very limited. The Bank's investment is consistent with the value paid on three recent transactions made during the period from April 2014 to June 2014. In these circumstances the Bank has determined the fair value of its shares in Super Myway to be consistent with these three recent share transactions without any adjustment to allow for its minority interest and the illiquidity of the investment.

All the investments are to be recovered more than 12 months after the balance sheet date.

12. DUE FROM / TO CONTROLLED ENTITIES

Due from controlled entities (assets)

	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Amounts receivable from controlled entities	-	-	32,622	31,579
Deferred securitisation receivable	-	-	6,580	9,591
	-	-	39,202	41,170

Due to controlled entities (liabilities)

Amounts payable to controlled entities	-	-	288,416	292,039
	-	-	288,416	292,039

The majority of the above amounts are to be recovered more than 12 months after balance sheet date.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
13. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	9,630	7,975	9,630	7,975
Provision for amortisation	(5,150)	(4,227)	(5,150)	(4,227)
	4,480	3,748	4,480	3,748
Plant and equipment				
At cost	11,688	11,103	11,504	10,846
Provision for depreciation	(8,953)	(8,509)	(8,832)	(8,417)
	2,735	2,594	2,672	2,429
Total property, plant and equipment	7,215	6,342	7,152	6,177

Reconciliation of the carrying amounts of each class of property, plant and equipment

	CONSOLIDATED			POLICE & NURSES LIMITED		
	Leasehold improvements	Plant and equipment	Total	Leasehold improvements	Plant and equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2012	3,743	2,999	6,742	3,743	2,835	6,578
Additions	1,276	404	1,680	1,276	374	1,650
Disposals	(298)	(23)	(321)	(298)	(71)	(369)
Depreciation expense	(973)	(786)	(1,759)	(973)	(709)	(1,682)
Carrying amount at 30 June 2013	3,748	2,594	6,342	3,748	2,429	6,177
Carrying amount at 1 July 2013	3,748	2,594	6,342	3,748	2,429	6,177
Additions	2,065	1,188	3,253	2,065	1,189	3,254
Disposals	(120)	(218)	(338)	(120)	(145)	(265)
Depreciation expense	(1,213)	(829)	(2,042)	(1,213)	(801)	(2,014)
Carrying amount at 30 June 2014	4,480	2,735	7,215	4,480	2,672	7,152

The majority of the above amounts have expected useful lives longer than 12 months after balance sheet date.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
14. INVESTMENT PROPERTIES				
At fair value				
Opening balance	22,985	23,465	-	-
Net transfer to inventory	73	-	-	-
Net loss from fair value adjustment	(450)	(480)	-	-
Closing balance	22,608	22,985	-	-

(a) Description of investment property

The investment property is the Jacaranda Gardens Retirement Village, which is 100% owned by the Group.

(b) Amounts recognised in income statement for investment property

Other income - amenities fees and interest	615	1,014	-	-
Direct operating expenses from property that generated other income	(64)	(21)	-	-
Net loss on revaluation of investment property	(450)	(480)	-	-
	100	514	-	-

(c) Valuation

Valuation basis

The basis of the valuation of the investment property is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction. The 30 June 2014 valuation was based on a Directors' valuation. The valuation is on the basis that the property must be sold as a whole and continue to be operated as a retirement village. Additionally, it is a requirement of the lease contract entered into with the residents for the community facilities of the retirement village to be maintained.

The basis for the Directors' valuation was a formal independent valuation prepared by Richard Noble & Company on 30 June 2014.

Assumptions underlying the Directors' valuation

The value of the investment property is attributable to the future amenities fee income. This value has been determined on an assessment of discounted cash flows over a period of 32 years (2013: 33 years). The discounted cash flows are based on the following assumptions:

- (i) unit values are based on a weighted average of \$415,000 (2013: \$418,333) per unit;
- (ii) escalation factor of 4% in 2015, 5% in 2016 and 6% for all subsequent years (2013: 6%) attributable to the unit values which is the market determined long-term growth rate for residential property, adjusted to reflect market conditions;
- (iii) unit re-leasing rate equivalent to a comparison of current residents to life expectancy tables produced by the Australian Bureau of Statistics for Western Australia, coupled with a market determined rate of re-leasing occurring for reasons other than death;
- (iv) rate of amenities fee income based on the length of anticipated occupancy;
- (v) discount rate of 13.5% (2013: 13.25%) per annum pre-tax; and
- (vi) current prevailing economic conditions.

Notes to the Financial Statements

30 JUNE 2014

14. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

The escalation factor and unit resale rate are based on historical external data and are not necessarily indicative of patterns that may occur. It is not possible to predict with accuracy the impact of future fluctuations in economic conditions on valuations in the future.

Representation of valuation in financial statements

The Directors' valuation resulted in a net value of \$9.7 million (2013: \$10.3 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2014	2013
	\$000	\$000
Net value of property transferred from property, plant and equipment	13,815	13,815
Transfer (to)/from inventories	35	(38)
Net gain from fair value adjustment	8,758	9,208
Investment property asset	22,608	22,985
Included in property plant and equipment	55	55
Add: accrued amenities fees (Other receivables)	6,955	6,712
Less: lease loan sum liability (note 19)	(19,937)	(19,477)
	9,681	10,275

The majority of the above amounts are to be recovered more than 12 months after balance sheet date.

Notes to the Financial Statements

30 JUNE 2014

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
15. OTHER FINANCIAL ASSETS				
Investments in controlled entities	-	-	3,083	3,083

All controlled entities are incorporated in Australia and are ultimately controlled by the Bank. The controlled entities are as follows:

	CONSOLIDATED					
	Interests in controlled entities		Shares held in controlled entities			
	2014 %	2013 %	Held by the Bank 2014 \$	Held by other controlled entities 2014 \$	Held by the Bank 2013 \$	Held by other controlled entities 2013 \$
Members Holding Company Pty Ltd	100	100	400,002	-	400,002	-
Advance Settlements Coy Pty Ltd	100	100	1	19,999	1	19,999
P&N Landreach Pty Ltd	100	100	1,900	-	1,900	-
Essential Service Homes Pty Ltd	100	100	10,000	-	10,000	-
P&N Management Pty Ltd	100	100	60,000	-	60,000	-
National Home Loans Pty Ltd	100	100	61,500	-	61,500	-
Jacaranda Gardens Retirement Village	100	100	-	-	-	-
Police & Nurses Financial Planning Pty Ltd	65	65	2,550,080	-	2,550,080	-
Pinnacle RMBS Warehouse Trust No 1	100	100	-	-	-	-
Pinnacle Series Trust 2010 - T1	100	100	-	-	-	-
Pinnacle Series Trust 2013 - T1 (a)	100	-	-	-	-	-
Pinnacle Series Trust 2014 - SST (b)	100	-	-	-	-	-
			3,083,483	19,999	3,083,483	19,999

Notes to the Financial Statements

30 JUNE 2014

15. OTHER FINANCIAL ASSETS (cont'd)

(a) Pinnacle Series Trust 2013 - T1

The Bank launched a public term issue in October 2013. The Pinnacle Series Trust 2013 - T1 acquired mortgages by the way of purchasing mortgages directly from the P&N balance sheet and two warehouse trusts, the Pinnacle RMBS Warehouse Trust No 1 and the Entourage Funding Pty Limited.

The beneficial interest in the property of The Pinnacle Series Trust 2013 - T1 is represented by one income unit and ten capital units all held by the Bank. As a result full ownership of the Trust is consolidated as part of the Group.

The Trust-issued notes have been recognised as borrowings in the consolidated financial statements.

(b) Pinnacle Series Trust 2014 - SST

The Bank launched an internal self-securitisation trust in February 2014. The Pinnacle Series Trust 2014 - SST acquired mortgages by the way of purchasing mortgages directly from the P&N balance sheet. The Class A notes issued by the Trust are available for repurchase with the Reserve Bank of Australia to meet emergency funding if ever required.

The beneficial interest in the property of The Pinnacle Series Trust 2014 - SST is represented by one income unit and ten capital units all held by the Bank. As a result full ownership the Trust is consolidated as part of the Group.

The Trust-issued notes have been recognised as borrowings in the consolidated financial statements.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
16. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	1,572	1,572	-	-
	1,572	1,572	-	-
Computer software (ii)				
At cost	26,046	22,969	26,046	22,969
Accumulated amortisation	(16,799)	(14,499)	(16,799)	(14,499)
	9,247	8,470	9,247	8,470
Client list (iii)				
At cost	1,861	1,861	-	-
Accumulated amortisation	(1,512)	(1,326)	-	-
	349	535	-	-
Total intangible assets	11,168	10,577	9,247	8,470
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	1,572	1,572	-	-
Closing carrying amount	1,572	1,572	-	-
(ii) Computer software				
Opening carrying amount	8,470	8,820	8,470	8,820
Additions	3,385	1,631	3,385	1,631
Disposals	(130)	-	(130)	-
Amortisation charge *	(2,478)	(1,981)	(2,478)	(1,981)
Closing carrying amount	9,247	8,470	9,247	8,470
(iii) Client list				
Opening carrying amount	534	720	-	-
Amortisation charge *	(186)	(186)	-	-
Closing carrying amount	348	534	-	-

* The amortisation charge is included in depreciation and amortisation in the income statement.

(a) Impairment tests for goodwill

Goodwill acquired is in relation to Police & Nurses Financial Planning Pty Ltd. The recoverable value of the goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

(b) Key assumptions used for value-in-use calculations

Management determined value-in-use based on past performance and its expectations for the future. The assumptions used reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd. The value used in this calculation is based on a discount rate of 13.0% (2013: 13.0%) and a multiple of recurring income of one (2013: three).

(c) Impact of possible changes in key assumptions

Management has considered significant changes to the key assumptions identified in (b) and is comfortable that no impairment would be triggered by any such changes.

(d) Impairment charge

The impairment tests for goodwill determined no charge for impairment was required.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
17. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Doubtful debts	908	1,195	907	1,195
Intangible assets – client list	454	398	-	-
Business related costs	47	101	28	82
Provisions	1,807	1,685	957	952
Depreciation	1,445	782	1,393	725
Accruals	163	147	84	77
	4,824	4,308	3,369	3,031
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	584	836	584	836
	5,408	5,144	3,953	3,867
Offset to/from deferred tax liabilities (note 22)	(5,408)	(5,144)	(2,574)	(2,186)
Net deferred tax assets	-	-	1,379	1,681
Movements:				
Opening balance	5,144	6,067	3,867	4,938
(Charged) / credited to the income statement (note 4)	515	(332)	337	(480)
(Charged) / credited to equity (note 4)	(251)	(591)	(251)	(591)
Closing balance	5,408	5,144	3,953	3,867
18. MEMBERS' DEPOSITS				
Call deposits	955,713	822,620	956,116	822,869
Term deposits	1,329,604	1,202,839	1,330,289	1,203,363
Withdrawable shares (a)	729	689	729	689
Related parties (b)	6,602	6,266	6,602	6,266
	2,292,648	2,032,414	2,293,736	2,033,187

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 31.

Notes to the Financial Statements

30 JUNE 2014

18 MEMBERS' DEPOSITS (cont'd)

- (a) There exists only one class of withdrawable shares, and these are member shares and are redeemable on demand, subject to certain conditions. These include a small number of shares with a two year restriction on participating in any distributions.

There were 75,710 (2013: 71,752) member shares on issue at the end of the year:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Number of \$10 shares	69,884	65,738	69,884	65,738
Number of \$6 shares	5,071	5,225	5,071	5,225
Number of \$0 shares	755	789	755	789
	5,710	71,752	75,710	71,752
Movements:				
Opening number of shares	71,752	69,034	71,752	69,034
New shares issued during the year	7,177	5,510	7,177	5,510
Resignations during the year	(3,219)	(2,792)	(3,219)	(2,792)
Closing balance	75,710	71,752	75,710	71,752

- (b) Deposits for related parties are in relation to key management personnel and their related entities.

19. TRADE AND OTHER PAYABLES

Accrued interest payable	12,364	12,183	12,364	12,183
Securitised loan repayments payable	-	5,512	-	5,512
Lease loan sums (note 14)	19,937	19,477	-	-
Other payables	10,563	24,400	5,621	23,037
	42,864	61,572	17,985	40,732

Trade and other payables other than lease loan sums are normally settled on 30 day terms.

20. BORROWINGS

Secured				
Loans from other ADIs (b)	6,943	10,409	-	-
Notes payable	310,495	292,315	-	-
Securitised borrowings	-	161,177	-	161,177
Unsecured	-	39,845	-	39,845
	317,438	503,746	-	201,022

- (a) Interest charged on loans from other ADIs is at the financial institution's floating rate. The securities for loans from other ADIs are described in note 10.

The majority of the above amounts are to be settled more than 12 months after balance sheet date.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
21. PROVISIONS				
Employee benefits (a)	3,392	3,110	3,191	2,927
Make good (b)	314	247	314	247
Refurbishment (c)	2,818	2,432	-	-
	6,524	5,789	3,505	3,174
(a) Provision for employee benefits				
Opening balance	3,110	2,846	2,927	2,698
Employee benefits previously provided for paid out	(2,731)	(2,319)	(2,512)	(2,157)
Employee benefits provided for during the year	3,013	2,582	2,776	2,386
Closing balance	3,392	3,110	3,191	2,927
The provision for employee benefits includes accrued annual leave and long service leave. For long service leave the provision covers conditional entitlements for employees with five or more years of service, and all unconditional entitlements (including pro-rata entitlements) where employees have completed the required period of service.				
Based on previous experience, the Group expects the accrued leave entitlements to be paid out as follows:				
Within the next 12 months	2,627	2,345	2,426	2,162
Between one and two years	152	152	152	152
Later than two years	613	613	613	613
	3,392	3,110	3,191	2,927
(b) Provision for make good				
Opening balance	247	66	247	66
Make good provided for during the year	67	181	67	181
Closing balance	314	247	314	247
The provision for make good includes any make good work which will need to be contractually completed on the expiry of certain leases.				
The Group expects the make good provisions to be paid out as follows:				
Between one and two years	86	66	86	66
Between five and six years	228	181	228	181
	314	247	314	247
(c) Provision for refurbishment				
Opening balance	2,432	2,096	-	-
Refurbishment previously provided for expensed	(18)	(61)	-	-
Refurbishment provided for during the year	404	397	-	-
Closing balance	2,818	2,432	-	-
The provision for refurbishment is in relation to the Jacaranda Gardens Retirement Village and represents the funds which are accrued under the lease for life arrangement and which will be released or paid out when refurbishment of capital items within the retirement village is required. It is not possible to estimate the timing of the outflows relating to this provision.				

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
22. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Receivables	2,824	2,445	-	-
Intangible assets - software	2,574	2,186	2,574	2,186
Inventory	541	1,412	-	-
Fair value adjustment to investment property	2,628	2,763	-	-
Capital works	642	565	-	-
	9,209	9,371	2,574	2,186
Offset to / from deferred tax liabilities (note 17)	(5,408)	(5,144)	(2,574)	(2,186)
Net deferred tax liabilities	3,801	4,227	-	-
Movements:				
Opening balance	9,371	9,441	2,186	2,204
(Credited) / charged to the income statement (note 4)	(162)	(70)	388	(18)
Closing balance	9,209	9,371	2,574	2,186
23. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	220,000	205,000	220,000	205,000
Share capital reserve (b)	732	717	732	717
Cash flow hedges (c)	(1,364)	(1,951)	(1,364)	(1,951)
	219,368	203,766	219,368	203,766
Retained earnings				
Balance at beginning of year	28,476	30,430	18,021	20,910
Profit for the year	9,091	13,095	9,830	12,125
Total available for appropriation	37,567	43,525	27,851	33,035
Aggregate of amounts transferred to reserves	(15,015)	(15,014)	(15,015)	(15,014)
Dividends paid to non-controlling interests	(35)	(35)	-	-
Balance at end of year	22,517	28,476	12,836	18,021

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
23. RESERVES AND RETAINED EARNINGS (cont'd)				
(a) General reserve				
Balance at beginning of year	205,000	190,000	205,000	190,000
Transfer from retained profits	15,000	15,000	15,000	15,000
Balance at end of year	220,000	205,000	220,000	205,000

Nature and purpose of general reserve

The general reserve ensures that sufficient capital is retained by the Bank to comply with the capital adequacy requirements set by the Australian Prudential Regulation Authority. The reserve is eligible to be included as Tier 1 capital and meets the minimum level of capital adequacy as required under Prudential Standards 111 and 110 for ADIs.

(b) Share capital reserve				
Balance at beginning of year	717	703	717	703
Transfer from retained profits	15	14	15	14
Balance at end of year	732	717	732	717

Nature and purpose of share capital reserve

The share capital reserve reflects the share capital created on redemption of members' withdrawable shares. Under section 254K of the *Corporations Act 2001*, these redemptions must be made from retained profits. This reserve is also eligible to be included as Tier 1 capital.

(c) Cash flow hedges				
Balance at beginning of year	(1,951)	(3,331)	(1,951)	(3,331)
Revaluation	839	1,971	839	1,971
Income tax on revaluation	(252)	(591)	(252)	(591)
Balance at end of year	(1,364)	(1,951)	(1,364)	(1,951)

Nature and purpose of hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in note 1(q). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
24. NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the operating profit after tax to the net cashflows from operations				
Profit after income tax	9,110	13,103	9,830	12,125
Depreciation and amortisation	4,706	3,926	4,433	3,663
Bad and doubtful debts	1,813	1,665	1,813	1,665
Bad debts recovered	(616)	(409)	(616)	(409)
Loss / (gain) on disposal of property, plant and equipment	335	155	335	155
Dividend received	(529)	(525)	(1,594)	(590)
Increase / (decrease) in provisions	737	776	329	411
(Increase) / decrease in loan interest receivable	35	1,431	35	1,431
(Increase) / decrease in other receivables	8,138	-	8,006	1,222
(Increase) / decrease in inventory	2,177	4,039	-	-
Increase / (decrease) in member interest payable	181	(3,116)	181	(3,116)
Decrease in accrued expenses and trade and other payables	(18,898)	(10,938)	(22,870)	(5,647)
Increase / (decrease) in current tax liabilities	574	(1,008)	(536)	(1,789)
(Increase) / decrease in deferred tax asset	(224)	-	78	1,053
Increase in deferred tax liabilities	(202)	853	224	-
Increase in sundry debtors and prepayments	(222)	(20)	(227)	(18)
Fair value adjustment to investment property	450	480	-	-
Net cash inflow from operating activities	7,565	10,412	493	10,156
(b) Reconciliation of cash				
Cash balance comprises:				
– Cash	63,879	28,077	24,435	11,395
Closing cash balance	63,879	28,077	24,435	11,395

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
25. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance sheet date but not provided for				
– payable not later than one year	1,959	996	1,959	996
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than one year	6,208	5,679	6,208	5,679
– later than one and not later than five years	21,930	18,882	21,930	18,882
– later than five years	638	3,767	638	3,767
Aggregate lease expenditure contracted for at balance sheet date	28,776	28,328	28,776	28,328

Significant leasing arrangements

The Bank has a significant leasing arrangement in place relating to its head office at 130 Stirling Street, Perth. The lease expires on 4 June 2019, with no right of renewal. The lease allows for annual rental increases of 4%, with the exception of 2016 when the rent will be subject to a mark-to-market increase, capped at 20%.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
26. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	322,728	270,858	322,728	270,858

The Bank has entered into the following financing arrangements with:

- i. Credit Union Services Corporation (Australia) Limited and VISA International Services Association to participate in the "VISA card programme".
- ii. Credit Union Services Corporation (Australia) Limited to participate in the "redinet scheme".
- iii. Credit Union Services Corporation (Australia) Limited to participate in the:
 - standby credit facility: \$15,000,000 (unused as at 30 June 2014)
 - derivatives guarantee facility: \$3,000,000 (\$866,736 used as at 30 June 2014)
 - overdraft: \$5,000,000 (unused as at 30 June 2014)

Under the terms of the above agreements, the Bank has executed an equitable mortgage of a fixed and floating charge over all its assets and undertakings except for those assets provided as security for the borrowing facilities set out below. The charge is to secure all monies owing by the Bank to the above named organisations. The above facilities are subject to annual review and may be drawn at any time. The facilities may be withdrawn if terms and conditions of the agreements are breached by the Bank.

- iv. Bank of Western Australia Limited (a division of Commonwealth Bank of Australia Limited) - fully fluctuating overdraft facility: \$5,000,000. This facility was unused at 30 June 2014. This facility may be drawn at any time and may be terminated by the bank without notice.
- v. Credit Union Financial Support System Limited - with effect from 1 July 1999, the Bank is a party to the CUFSS Industry Support Contract registered under Section 66 of The Banking Act. CUFSS is a voluntary scheme for Australian mutual ADIs (credit unions, building societies and mutual banks). CUFSS is a company limited by guarantee, with each member's guarantee being \$100. As a member of CUFSS, the Bank:
 - may be required to advance funds of up to 3% (excluding permanent loans) of total assets to another mutual ADI requiring financial support;
 - may be required to advance permanent loans of up to 0.2% of total assets per financial year to another mutual ADI requiring financial support;
 - agrees, in conjunction with other members, to fund the operating costs of CUFSS.

CUFSS had approved no financial accommodation as at the date of the execution of the financial statements.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$	\$	\$	\$
27. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	3,379,709	2,026,505	3,379,709	2,026,505
Short-term employee benefits	2,501,838	1,866,414	2,501,838	1,866,414
Post-employment benefits	149,280	160,091	149,280	160,091
Termination benefits	728,591	-	728,591	-
	3,379,709	2,026,505	3,379,709	2,026,505

Persons who had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, during the financial year are considered to be key management personnel.

Included in the total key management personnel remuneration is Directors' remuneration (including superannuation contributions) of \$510,000 (2013: \$416,102).

As members of the Bank, the key management personnel and their related entities have available to them all of the services under normal member terms and conditions. These loans outstanding to key management personnel and their related entities as at 30 June 2014 amounted to \$2,600,799 (2013: \$2,127,802).

During the year loan advances amounted to \$2,296,398 (2013: \$2,527,096) and repayments amounted to \$2,212,800 (2013: \$1,908,142). Interest on these loans amounted to \$152,808 (2013: \$119,055).

In addition, to encourage recruitment and retention of employees, the Bank offers staff discounts primarily in relation to home loans (up to certain limits), to which a discount to the market interest rate of up to 0.75% is offered. As employees of the Bank, key management personnel that are not Directors can access these discounts. The total of these loans outstanding as at 30 June 2014 amounted to \$1,660,399 (2013: \$476,075). During the year loan advances amounted to Nil (2013: \$250,917) and repayments amounted to \$288,471 (2013: \$23,940).

Interest on these loans amounted to \$10,366 (2013: \$13,742). All of these loans are secured, except loan balances of \$23,567 (2013: \$19,221).

The terms and conditions in respect of all loans to key management personnel and their related entities have not been breached.

All key management personnel and their related entities have placed deposits with the Bank during the year under normal member terms and conditions. The balance of these deposits as at 30 June 2014 amounted to \$6,601,500 (2013: \$6,265,564).

During the year additional deposits amounted to \$9,349,646 (2013: \$10,840,502) and withdrawals amounted to \$9,909,308 (2013: \$5,449,414). Interest on these deposits amounted to \$130,704 (2013: \$63,560).

Each current key management person holds one member share in the Bank.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$'000	2013 \$'000
28. AUDITOR'S REMUNERATION				
(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity - PricewaterhouseCoopers				
– statutory financial reports audit services:				
relating to prior year	-	129	-	143
relating to current year	135	148	135	148
– other assurance services	93	99	75	63
	228	376	210	354
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
– income tax advice	111	74	88	67
– fringe benefits tax advice	8	7	8	7
– strategic planning project	271	-	271	-
– other (including R&D tax advice)	44	94	40	92
	434	175	407	166
Total auditor's remuneration	662	551	617	520

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29. INVESTMENTS IN JOINT ARRANGEMENTS

Eagle Bay joint venture

The controlled entity has a 33.33% participating interest in this joint operation to develop a subdivision of land for residential housing and is entitled to 33.33% of its output.

The consolidated entity's interests in the assets and liabilities employed in joint operations are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

	CONSOLIDATED	
	2014	2013
	\$000	\$000
Cash and cash equivalents	21	4
Inventories (land held for sale)	2,597	3,465
Share of assets employed in joint operations	2,618	3,469
Other liabilities	329	295
Borrowings	627	1,445
Share of liabilities employed in joint operations	956	1,740

The income and expenses related to the consolidated entity's interests in the joint operations are included in the consolidated income statement, in accordance with the accounting policy described in note 1(b), under the following classifications:

	CONSOLIDATED	
	2014	2013
	\$000	\$000
Revenue from sale of property developments	886	630
Share of income in joint operations	886	630
Property development costs	623	468
Interest expense	248	332
Share of expenses in joint operations	871	800

Notes to the Financial Statements

30 JUNE 2014

30. RELATED PARTY DISCLOSURES

The Bank charges its controlled entities for occupancy and other costs.

The Bank acts as banker for some of the subsidiaries in the wholly-owned Group, with cash transactions being undertaken on behalf of the subsidiaries and adjusted for through amounts payable/receivable to/from the Bank. All inter-company balances are non-interest bearing. Some subsidiaries maintain separate deposit accounts with the Bank under normal commercial terms.

The Bank transacted with its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in note 4.

	POLICE & NURSES LIMITED	
	2014	2013
	\$000	\$000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the wholly-owned Group:		
Interest revenue	6,984	4,398
Interest expense	24,119	19,913
Dividend revenue	1,065	65
Aggregate amounts receivable from entities in the wholly-owned Group at balance sheet date	32,622	31,579

Notes to the Financial Statements

30 JUNE 2014

31. FINANCIAL RISK MANAGEMENT

The Bank and Group have exposure to the following risks from their use of financial instruments:

- market risk
- liquidity risk
- credit risk

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board on its activities.

Risk management policies are established to identify and analyse the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's and Group's activities. The Bank and Group, through their training and management standards and procedures, aim to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance with the Bank's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and the Group. The Risk Committee is assisted in its oversight role by internal auditors. The internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) Market risk management - objectives and policies

Market risk exposure is the risk that the fair value or future cash flows from banking activities will fluctuate because of changes in market rates. The Bank's only exposure is to changes in interest rates as it does not have any dealings in foreign currencies, commodities or equity products. The Bank does not have a trading book and uses derivatives to minimise exposures arising out of normal banking activities as part of its hedging strategy. The Bank applies a 'Value at Risk' methodology (VaR) to its non-trading portfolio to estimate the market risk of positions taken and the maximum losses expected based upon a number of assumptions for various changes in market conditions.

The largest risk exposure is the repricing risk associated with the Bank's fixed rate lending and fixed term deposit portfolios, though these are off-set with the risk being largely removed through the utilisation of derivative contracts provided by third parties which swap the longer fixed rate exposures for short-term variable rate exposures.

The Bank manages limits and controls its market risk through its Assets and Liabilities Committee reporting via the Chief Executive Officer and the Risk Committee to the Board. The Bank calculates its VaR and compares this result with limits set and approved by the Board. The Bank structures the levels of market risk it accepts by placing limits on the amount of exposure in different time periods and the overall exposure. Such risks are governed by the Market Risk Management Policy and monitored on an ongoing basis with annual reviews by the Board.

Significant policies and processes for managing risk include:

- adherence to market risk policy;
- independent interest rate sensitivity analysis;
- independent VaR and market risk exposure review on a quarterly basis;
- limits in relation to VaR and market risk exposures;
- independent duration and gap analysis; and
- independent hedging review and recommendations.

There have been updates to the Bank's market risk policies from the prior year to reflect enhanced risk controls.

The Bank's market risk exposure is considered to be consistent with what are normal acceptable industry levels for an entity without a trading book and hence it is considered that the market risk is low.

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate sensitivity analysis

The following table illustrates the impact on the Group and the Bank of a 100bp change in interest rates. It is assumed that the change is parallel across the yield curve.

	CONSOLIDATED				
	Carrying amount	+100bp		-100bp	
		Income statement	Other movements in equity	Income statement	Other movements in equity
\$000	\$000	\$000	\$000	\$000	
2014					
Cash and cash equivalents	63,879	627	-	(604)	-
Due from banks	292,036	2,920	-	(2,920)	-
Loans (i)	2,449,544	21,529	-	(21,529)	-
Derivatives	(1,949)	-	478	-	(478)
Members' deposits (ii)	(2,292,648)	(9,630)	-	9,630	-
Borrowings	(317,438)	(3,170)	-	3,170	-
Total increase / (decrease)	193,424	12,276	478	(12,253)	(478)
2013					
Cash and cash equivalents	28,077	288	-	(288)	-
Due from banks	317,533	3,175	-	(3,175)	-
Loans (i)	2,385,993	21,668	-	(21,668)	-
Derivatives	(2,787)	-	445	-	(445)
Members' deposits (ii)	(2,032,414)	(8,228)	-	8,228	-
Borrowings	(503,746)	(5,064)	-	5,064	-
Total increase / (decrease)	192,656	11,839	445	(11,839)	(445)

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

	POLICE & NURSES LIMITED				
	Carrying amount \$000	+100bp		-100bp	
		Income statement \$000	Other movements in equity \$000	Income statement \$000	Other movements in equity \$000
2014					
Cash and cash equivalents	24,435	233	-	(210)	-
Due from banks	292,036	2,920	-	(2,920)	-
Loans ⁽ⁱ⁾	2,450,277	21,529	-	(21,529)	-
Derivatives	(1,949)	-	478	-	(445)
Members' deposits ⁽ⁱⁱ⁾	(2,293,736)	(9,630)	-	9,630	-
Due to controlled entities	(288,416)	-	-	-	-
Total increase / (decrease)	182,647	15,052	478	(15,029)	(445)
2013					
Cash and cash equivalents	11,395	117	-	(60)	-
Due from banks	317,533	3,175	-	(3,175)	-
Loans ⁽ⁱ⁾	2,385,993	21,668	-	(21,668)	-
Derivatives	(2,787)	-	445	-	(445)
Members' deposits ⁽ⁱⁱ⁾	(2,033,187)	(8,231)	-	8,231	-
Borrowings	(201,022)	(2,021)	-	2,021	-
Due to controlled entities	(292,039)	(2,920)	-	2,920	-
Total increase / (decrease)	185,886	11,788	445	(11,731)	(445)

(i) 1% shift applied to the value of variable loans held at year end calculated on \$2,126,853,770 (2013: \$2,170,894,385). The remaining balance represents fixed rate loans for 2013/2014, which are not subject to interest rate movements for the period.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on \$943,393,723 (2013: \$823,308,883). The remaining balance represents fixed rate deposits for 2013/2014, which are not subject to interest rate movements for the period.

Notes to the Financial Statements

30 JUNE 2014	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
31. FINANCIAL RISK MANAGEMENT (cont'd)				
Fair value estimation - interest rate swaps (liability)	1,949	2,787	1,949	2,787

The fair value of interest rate swaps is calculated as the present value of the estimated cash flows using the forward interest rates quoted in active markets.

(b) Liquidity risk management - objectives and policies

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank manages limits and controls its liquidity risk through its Assets and Liabilities Committee reporting via the Chief Executive Officer and the Risk Committee to the Board. The Bank structures the levels of liquidity risk it accepts by placing minimum limits on the amount of liquidity held. Such risks are governed by policies and monitored on an ongoing basis with annual reviews by the Board.

The Bank sets aside a portfolio of high quality liquid assets at all times. The Bank's liquid assets are predominantly short-term securities.

There have been updates to the Bank's liquidity risk policies from the prior year to enhance liquidity management.

Financing arrangements

The Bank also maintains \$15 million (2013: \$42 million) of Cuscal standby facilities to support its liquidity arrangements. Additional liquidity support is available in the form of \$10 million (2013: \$10 million) of overdraft facilities, of which \$5 million (2013: \$5 million, undrawn) is with Cuscal and \$5 million (2013: \$5 million, undrawn) is with Bankwest.

Both these facilities were undrawn as at 30 June 2014.

The Bank also utilises Bridges funding facilities via Cuscal. This facility has a limit of \$40 million (2013: \$155,000). This facility was undrawn at 30 June 2014.

Also maintained by the Bank are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of \$300 million (2013: \$500 million), of which \$300 million (2013: \$338 million) was available at 30 June 2014;
- a term securitisation facility under the Pinnacle Series Trust 2010-T1 of \$86 million (2013: \$127 million);
- a term securitisation facility under the Pinnacle Series Trust 2013-T1 of \$218 million (2013: Nil);
- and a term securitisation facility under the Pinnacle Series Trust 2014-SST of \$344 million (2013: Nil).

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

The Group and the Bank had access to the following undrawn borrowing facilities at 30 June 2014:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Floating rate				
Expiring within one year (overdrafts and standby facilities)	25,000	52,000	25,000	52,000
	25,000	52,000	25,000	52,000

	CONSOLIDATED			
	On demand \$000	Less than 3 months \$000	3 to 12 months \$000	1 to 5 years \$000
Maturities of financial liabilities				
2014				
Borrowings	-	27,865	75,408	214,166
Members' deposits	955,713	891,431	396,716	48,788
Derivative financial instruments	-	56	787	1,106
	955,713	919,352	472,911	264,060
2013				
Borrowings	-	88,388	145,737	269,621
Members' deposits	822,620	909,111	282,427	18,256
Derivative financial instruments	-	100	325	2,362
	822,620	997,599	428,489	290,239

	POLICE & NURSES LIMITED			
	On demand \$000	Less than 3 months \$000	3 to 12 months \$000	1 to 5 years \$000
Maturities of financial liabilities				
2014				
Members' deposits	956,116	891,431	396,716	49,473
Derivative financial instruments	-	56	787	1,106
	956,116	891,487	397,503	50,579
2013				
Borrowings	-	57,094	51,747	92,181
Members' deposits	822,869	909,111	282,427	18,780
Derivative financial instruments	-	100	325	2,362
	822,869	966,305	334,499	113,323

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Credit risk management - objectives and policies

Credit risk is the risk of a counterparty failing to meet contractual obligations as they fall due.

Credit risk may arise from both lending activities to members and liquidity investments in banks.

The Group has established a risk appetite statement which sets out the level of risk tolerance the business is willing to take across its operations including credit risk. The Group also operates within an established risk management framework and has an appropriate risk structure to ensure robust management of credit risk.

Management and control of credit risk is centralised in a Credit Committee which reports to the Board and the Chief Executive Officer on a monthly basis. The Chairperson of the Credit Committee presents at least quarterly to the Board Audit & Risk Committee on credit risk issues.

Lending activities to members cover both secured and unsecured retail lending and secured commercial lending. The Bank maintains policies, credit decision-making systems and processes to ensure appropriate analysis is undertaken to mitigate credit risk.

To determine credit quality, the Bank has implemented a credit risk grading system. The credit risk grading system highlights changes in the Bank's credit risk profile and trends in asset quality. Retail loans with similar risk characteristics are managed on a portfolio basis. In relation to the home loan portfolio, credit quality is closely aligned to the Basel III Standardised approach to credit risk. Within the commercial loan portfolio each exposure is graded on an individual basis. All credit exposures are regularly monitored to ensure that any deterioration in credit quality is identified and appropriately managed. Where recoverability is in doubt, loans are individually managed and appropriate provisions are raised.

The Bank manages and monitors credit concentration risk through a series of key risk indicators with defined limits and tolerance thresholds based on a comprehensive risk assessment. Policies are also in place to manage large exposures to an individual counterparty or group.

There have been no material changes to the Bank's credit risk policies from the prior year, though the Group is working to ensure compliance with forthcoming legislative changes encompassed within the *Privacy Amendment (Enhancing Privacy Protection) Bill 2012*.

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Concentration of loans				
The loan portfolio of the Bank does not include any loan which represents 10% or more of capital.				
The Bank has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:				
Western Australian State government employees	596,932	581,966	596,932	581,966
Other	1,855,632	1,808,010	1,856,365	1,808,010
	2,452,564	2,389,976	2,453,297	2,389,976
Concentration of deposits				
Western Australian State government employees	405,653	377,549	405,653	377,549
Other	1,886,995	1,654,865	1,888,083	1,655,638
	2,292,648	2,032,414	2,293,736	2,033,187

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

2014	Maximum exposure to credit risk	Credit risk rating					
		Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	\$000	\$000	\$000	\$000	\$000	\$000	
Derivatives	(1,949)	(1,949)	-	-	-	-	-
Fully performing loans							
Home loans	1,895,698	1,485,475	380,922	29,301	-	-	-
Secured overdrafts	56,118	54,822	1,296	-	-	-	-
Commercial loans	36,235	-	5,397	1,231	12,175	6,800	10,632
Personal loans	70,991	-	-	-	70,991	-	-
Unsecured overdrafts and credit cards	17,534	-	-	-	-	17,534	-
Total fully performing loans	2,076,576	1,540,297	387,615	30,532	83,166	24,334	10,632
Past due loans							
Home loans							
1-7 days	18,353	14,440	3,187	726	-	-	-
8-30 days	18,039	8,618	5,971	3,450	-	-	-
31-60 days	5,786	2,992	2,089	705	-	-	-
61-89 days	3,371	2,334	734	303	-	-	-
Total	45,549	28,384	11,981	5,184	-	-	-
Fair value security held (1)	57,426						
Secured overdrafts							
1-7 days	-	-	-	-	-	-	-
8-30 days	871	-	871	-	-	-	-
31-60 days	-	-	-	-	-	-	-
61-89 days	-	-	-	-	-	-	-
Total	871	-	871	-	-	-	-
Fair value security held (1)	1,051						
Commercial loans							
1-7 days	-	-	-	-	-	-	-
8-30 days	2,327	-	-	-	2,327	-	-
31-89 days	-	-	-	-	-	-	-
Total	2,327	-	-	-	2,327	-	-
Fair value security held (2)	4,300						
Personal loans							
1-7 days	1,005	-	-	-	1,005	-	-
8-30 days	663	-	-	-	663	-	-
31-89 days	589	-	-	-	589	-	-
Total (3)	2,257	-	-	-	2,257	-	-
Unsecured overdrafts and credit cards							
1-7 days	5,983	-	-	-	-	5,983	-

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31. FINANCIAL RISK MANAGEMENT (cont'd)

2014	Maximum exposure to credit risk	Credit risk rating					
		Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	\$000	\$000	\$000	\$000	\$000	\$000	
8-30 days	74	-	-	-	-	74	-
31-89 days	124	-	-	-	-	124	-
Total	6,181	-	-	-	-	6,181	-
Total past due loans	57,185	29,255	11,981	5,184	4,584	6,181	-
Impaired loans							
Home loans							
90 days plus	8,574						
Fair value security held (1)	15,496						
Secured overdrafts							
90 days plus	-						
Fair value security held (1)	-						
Commercial loans							
90 days plus	6,521						
Fair value security held (2)	6,165						
Personal loans							
90 days plus	113						
Unsecured overdrafts and credit cards							
90 days plus	38						
Total impaired loans	15,246						
Securitised loans	303,557						
Total loans portfolio	2,452,564						
Other interest-bearing receivables							
Interest-earning deposits-banks	-	-	-	-	-	-	-
Interest-earning deposits-other ADIs	-	-	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-	-	-
Total other interest-bearing receivables	-	-	-	-	-	-	-

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31. FINANCIAL RISK MANAGEMENT (cont'd)

2013	Maximum exposure to credit risk	Credit risk rating					
		Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Derivatives	(2,787)	(2,787)	-	-	-	-	-
Fully performing loans							
Home loans	1,684,009	1,210,643	429,976	43,390	-	-	-
Secured overdrafts	44,335	42,207	1,178	950	-	-	-
Commercial loans	53,766	-	5,249	5,520	13,655	20,272	9,070
Personal loans	76,644	-	-	-	76,644	-	-
Unsecured overdrafts and credit cards	16,591	-	-	-	-	16,591	-
Total fully performing loans	1,875,345	1,252,850	436,403	49,860	90,299	36,863	9,070
Past due loans							
Home loans							
1-7 days	22,452	12,847	8,897	708	-	-	-
8-30 days	18,120	6,617	7,073	4,430	-	-	-
31-60 days	1,947	624	971	352	-	-	-
61-89 days	885	885	-	-	-	-	-
Total	43,404	20,973	16,941	5,490	-	-	-
<i>Fair value security held (1)</i>	74,366						
Secured overdrafts							
1-7 days	-	-	-	-	-	-	-
8-30 days	497	-	497	-	-	-	-
31-60 days	-	-	-	-	-	-	-
61-89 days	-	-	-	-	-	-	-
Total	497	-	497	-	-	-	-
<i>Fair value security held (1)</i>	704						
Commercial loans							
1-7 days	-	-	-	-	-	-	-
8-30 days	-	-	-	-	-	-	-
31-89 days	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
<i>Fair value security held (2)</i>	-						
Personal loans							
1-7 days	1,361	-	-	-	1,361	-	-
8-30 days	701	-	-	-	701	-	-
31-89 days	471	-	-	-	471	-	-
Total (3)	2,533	-	-	-	2,533	-	-

Notes to the Financial Statements

30 JUNE 2014

31. FINANCIAL RISK MANAGEMENT (cont'd)

2013	Maximum exposure to credit risk	Credit risk rating					
		Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Unsecured overdrafts and credit cards							
1-7 days	5,900	-	-	-	-	5,900	-
8-30 days	178	-	-	-	-	178	-
31-89 days	181	-	-	-	-	181	-
Total	6,259	-	-	-	-	6,259	-
Total past due loans	52,693	20,973	17,438	5,490	2,533	6,259	-
Impaired loans							
Home loans							
90 days plus	4,504						
Fair value security held (1)	7,095						
Secured overdrafts							
90 days plus	-						
Fair value security held (1)	-						
Commercial loans							
90 days plus	9,905						
Fair value security held (2)	6,712						
Personal loans							
90 days plus	455						
Unsecured overdrafts and credit cards							
90 days plus	112						
Total impaired loans	14,976						
Securitised loans	446,962						
Total loans portfolio	2,389,976						
Other interest-bearing receivables							
Interest-earning deposits-banks	255,992	255,992	-	-	-	-	-
Interest-earning deposits-other ADIs	61,541	61,541	-	-	-	-	-
Accrued interest receivable	1,270	1,270	-	-	-	-	-
Total other interest-bearing receivables	318,803	318,803	-	-	-	-	-

(1) Home loans are secured by registered mortgages over residential properties. Lenders mortgage insurance contracts are entered into as part of the Bank's lending policy to manage credit risk in the home lending portfolio.

(2) Commercial loans are secured by registered mortgages over commercial or residential properties. Certain commercial loans on the watch list are included in Grades 5 and 6.

(3) Personal loans are provided on both a secured or unsecured basis. Secured loans are secured by a goods mortgage over motor vehicles.

Notes to the Financial Statements

30 JUNE 2014

31. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Capital management

The Bank maintains an appropriate level of capital commensurate with the level and extent of risks to which the Bank is exposed from its activities. The purpose of capital is to absorb losses from loans, investments and general operations. Capital also functions as a cushion against credit risk, liquidity risk, interest rate risk, operational risk and other risks. Capital allows for operational growth and is designed to maintain the confidence of depositors and creditors. The Bank has in place an Internal Capital Adequacy Assessment Process "ICAAP" that includes:

- adequate systems and procedures in place to identify, assess, measure, monitor and manage the risks arising from its activities on a continuous basis to ensure that capital is held at a level consistent with the Bank's risk profile; and
- a capital management plan, consistent with the overall business plan, for managing its capital levels as a buffer against the risks involved in the Bank's activities on an ongoing basis. The capital management plan not only measures current capital requirements after the consideration of risk but also projects forwards (one to three years), managing the balance sheet within the Bank's risk parameters.

The capital management plan includes a capital management strategy which includes the capital target for providing a buffer against risk, how the target is to be met and the means for sourcing additional capital. The overall objective of having a capital management strategy is for the Board and management to create value for the Bank's shareholders while maintaining a sound and viable business through the effective management of its risks. The actual level of capital adequacy is calculated every month and reported to the Board, to ensure compliance with the minimum capital ratio. The actual level of capital adequacy is also calculated every quarter and reported to APRA.

There have been updates to the Bank's capital management plan from the prior year to align with changing prudential and regulatory requirements.

The Bank is required by APRA to measure and report capital on a risk weighted basis in accordance with the requirements of the Prudential Standards. This risk weighted approach measures the ratio of actual eligible capital held against a risk weighted balance for all on and off balance sheet risk positions as well as for other non balance sheet risk positions.

The Prudential Standards reflect the international risk based capital measurement practices commonly known as Basel II and Basel III. This change results in a difference in the measurement of the capital ratio of the consolidated entity, as defined by the Australian Prudential Standards, to include the Bank and its subsidiaries involved in financial service activities (referred to as level 2) and the Bank for the current financial year compared to the prior financial year.

Capital adequacy ratio for prior financial year had to be restated to below, as a result of the APS310 audits carried out in October 2013.

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2014 Unaudited	2013 Audited	2014 Unaudited	2013 Audited
Capital Adequacy ratio as reported to APRA at 30 June	16.52%	16.37%	17.00%	16.86%

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 20 to 71 are in accordance with the *Corporations Act 2001*,
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Bank's and Group's financial position as at 30 June 2014 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

- (b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors.



P M GABB
Director



S J MELVILLE
Director

25 August 2014
PERTH WA

Independent Auditor's Report



Independent auditor's report to the members of Police & Nurses Limited

Report on the financial report

We have audited the accompanying financial report of Police & Nurses Limited (the Bank), which comprises the balance sheets as at 30 June 2014, the income statements, statements of comprehensive income, statement of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Bank and Police & Nurses Limited Group (the consolidated entity). The consolidated entity comprises the Bank and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Independent Auditor's Report (cont'd)



Independent auditor's report to the members of Police & Nurses Limited (continued)

Auditor's opinion

In our opinion

- (a) the financial report of Police & Nurses Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Bank's and consolidated entity's financial position as at 30 June 2014 and of their performance for the year ended on that date, and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Justin Carroll'.

Justin Carroll
Partner

Perth
25 August 2014

Police & Nurses Limited

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Perth WA 6000

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Perth BC WA 6849

Tel: 13 25 77

Branches

Belmont

Shop 72a, Belmont Forum Shopping Centre
227 Belmont Avenue

Booragoon

Suite 10, Riseley Corporate Centre
135 Riseley Street

Bunbury

Shop 46, Bunbury Forum Shopping Centre
Sandridge Road

Cannington

Shop 1047A, Westfield Carousel Shopping Centre
1382 Albany Highway

Fremantle

Shop 2, Woolstores Shopping Centre
Cnr Queen Street & Cantonment Street

Innaloo

Shop 1100, Westfield Innaloo Shopping Centre
Ellen Stirling Boulevard

Joondalup

Shop T18, Lakeside Joondalup Shopping Centre
420 Joondalup Drive

Maddington

Shop 61, Centro Maddington Shopping Centre
Attfield Street

Mandurah

Shop 62, Centro Mandurah Shopping Centre
Pinjarra Road

Midland

Shop T49, Midland Gate Shopping Centre
Great Eastern Highway

Morley

Shop SP087, Centro Galleria Shopping Centre
Bishop Street

Ocean Keys

Shop 127, Ocean Keys Shopping Centre
Ocean Keys Boulevard

Perth

130 Stirling Street, Perth
(formerly 246 Adelaide Terrace)

Rockingham

Shop G069, Rockingham City Shopping Centre
Read Street

Success

Shop 229, Cockburn Gateway Shopping Centre
Beeliar Drive

Warwick

Shop SP072, Centro Warwick Shopping Centre
Cnr Erindale & Beach Roads

Whitfords

Shop 158, Westfield Whitford City Shopping Centre
Marmion Avenue

