bank

Annual Report 2019

Directory

Directors

Paul Marshall Gabb (Chair)
Stephen John Melville (Deputy Chair)
Wayne Gregson
(retired 7 November 2018)
Eric Laurence Smith
Kellie Louise Properjohn
Edwin Roy Bradley
Julie Ann Elliott
Andrew Douglas Hadley
Trevor Joel Hunt
(appointed 16 July 2018)
Alan Craig Philp
(appointed 8 November 2018)

Chief Executive Officer

Andrew Douglas Hadley

Company Secretaries

Jacqueline Anne Donald
Jennifer Anne Handz
(appointed 25 March 2019)

Registered Office

Police & Nurses Limited
ABN 69 087 651 876

Level 6
556 Wellington 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

Contents

The 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 16 to 20, which is not part of the financial report.

The financial report was authorised for issue by the Directors on 29 August 2019. The Directors have the power to amend and reissue the financial report.

Police & Nurses Limited publishes its Basel II disclosures (including capital and remuneration) on its website at quarterly intervals. The disclosure covering the period ended 30 June 2019 can be found here: **https://www.pnbank.com.au/about/corporate-information/corporate-details/**

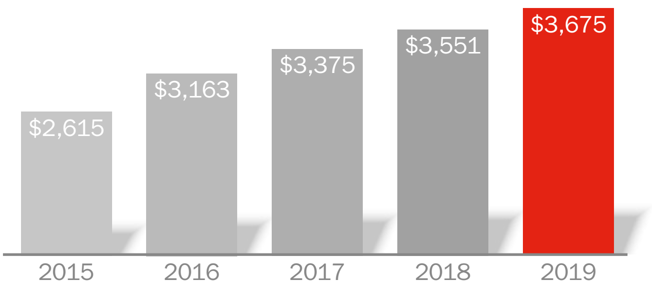
Cover: P&N Bank member Sharon and her two sons at the South Perth foreshore.

Highlights at a glance

Group loans under management

grew by **3.5%**

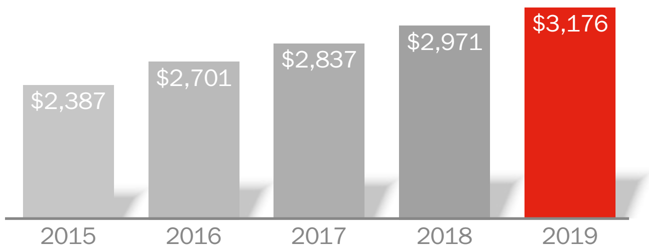
2018	2019
$3,551m	**$3,675m**



Group total deposit balance

grew by **6.9%**

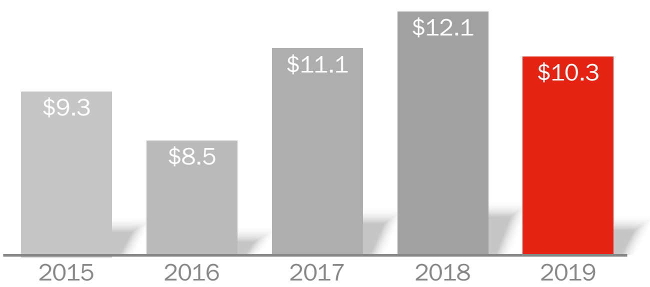
2018	2019
$2,971m	**$3,176m**



Group net profit after tax (NPAT)

$10.3m

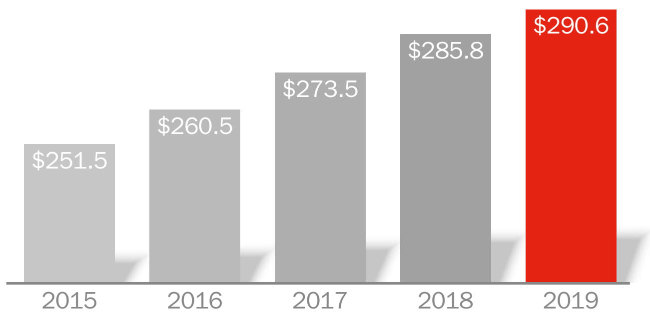
2018	2019
$12.1m	**$10.3m**



Group reserves

increased to **$290.6m**

2018	2019
$285.8m	**$290.6m**



NPAT: Net Profit After Tax and After Minority Interest.
All numbers in the graphs above are presented in $ millions.

Board Members

Paul Marshall Gabb
Chair

Stephen John Melville
Deputy Chair

Edwin Roy Bradley
Director

Julie Ann Elliott
Director

Wayne Gregson
Director (retired Nov 2018)

Andrew Douglas Hadley
Director

Trevor Joel Hunt
Director (appointed July 2018)

Alan Craig Philp
Director (appointed Nov 2018)

Kellie Louise Properjohn
Director

Eric Laurence Smith
Director

Andrew Hadley
Chief Executive Officer

Jill Marks
General Manager
Business Transformation

Patrick Jodas
Chief Financial Officer

Michael Ribbens
Chief Risk Officer

Mark Smith
General Manager
People & Culture

Anna Pearce
General Manager
Member Experience

Erik Fenna
Chief Information Officer

Kim Radalj
General Manager
Strategy & Development

Executive Team

Chair's Report

I have pleasure in presenting the Annual Report for 2019.

P&N has enjoyed success in a range of areas this past year, delivering a solid financial performance despite a continued economic malaise in Western Australia, the backdrop of historically low interest rates and all the while responding to ongoing tightening of the regulatory environment.

Notwithstanding these challenges, our members continue to advocate strongly for the Bank with our Net Promoter Score, a key measure of advocacy, remaining at industry best practice levels.

Member-owned, member first

This year, the Australian banking sector was characterised by the findings and fall out from the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

In his interim draft report, Commissioner Hayne surmised that annual profit had become the defining measure of success of Australian banks at the expense of their customers.

Commissioner Hayne went further in his final report, saying "Too often, the answer seems to be greed – the pursuit of short-term profit at the expense of basic standards of honesty."

With P&N's ethical member-owned model, together with your Board's ongoing commitment to our member-first culture, we continue to deliver a trusted and contemporary banking experience for our 96,000 members.

Since our inception, P&N has existed to enrich the lives of its members and their communities and we will continue to put our members first as we adapt to the ever-changing landscape of retail banking, advances around digital and emerging technologies and escalating regulatory expectations.

As our owners and our customers are one and the same we can more confidently look to make those long-term strategic decisions and investments in the interests of building a sustainable future, and without some of those shorter-term distractions, such as, to pay dividends to reward external stakeholders.

Courtney assisted by Daniel at our Maddington Discovery Store

" ...we will continue to put our members first as we adapt to the ever-changing landscape of retail banking, advances in digital and emerging technologies and escalating regulatory expectations."

Merger with bcu

For some years, I have emphasised that in order to remain relevant for the present and to strategically position ourselves to remain sustainable for the future, we need to grow and build scale. Indeed, one of the three key pillars in P&N's strategic plan was "partnering for growth".

In December 2018, P&N signed a Memorandum of Understanding to investigate a merger with east coast credit union bcu (Bananacoast Community Credit Union). Very similar to P&N, bcu operates under the same customer-owned model, enjoys a successful history serving a loyal member base and offers a regional presence that their members value highly.

In February 2019, after a thorough due diligence process, P&N's Board of Directors unanimously agreed that this merger is in the best interests of members.

A merger with bcu will provide P&N the scale to deliver better products and services for members and retain our position amongst the strongest customer-owned banks in Australia.

As a merged entity operating under the Police & Nurses Limited banking license, P&N and bcu will share the best of each other's banking offerings while spreading many of the fixed and a number of common operating costs across a larger organisational base.

The operating model has been designed to retain and respect both brand identities and we will continue to invest in both brands, P&N in WA and bcu in New South Wales and Queensland. The merger will see P&N maintain all the attributes that members value including the P&N name, our local WA presence and support of the WA community, our local branch network and our locally based staff.

A detailed Merger Member Information Document was emailed or posted to members in September 2019 together with the relevant voting information. A member vote will take place in September and October 2019. In the meantime, I encourage you to become familiar with information about the merger and how it will benefit P&N and our members.

If you're unsure about anything, please contact staff at one of our branches, our Contact Centre or by emailing strongertogether@pnbank.com.au.

I trust that you will appreciate how important this merger is for our future, and so take the opportunity to exercise your right to have your say on this important milestone in P&N's journey.

bcu are the main sponsor of the annual bcu Coffs Tri event

Chair's Report

Community

Enriching the lives of our members and their communities remains our core purpose.

P&N has continued to support the WA community through our We Champion partnerships with iconic community groups Lifeline WA, Variety WA and The Fathering Project. Each of these organisations provides outstanding support and services to West Australians and we are very proud of our involvement with them.

P&N's Annual "Flourish - Growing Partnerships in the Community" event was another highlight where our partners shared the work they had undertaken in the previous year and their plans for the future. Volunteers and guests from each organisation joined P&N staff and members for a heart-warming event, culminating in a key-note address from well-known Perth philanthropist, Dr Ros Worthington OAM.

In 2019, P&N's Local Heroes community program again actively supported those who serve our community and P&N was also proud to be a major sponsor of the Australasian Police & Emergency Services Games held in Mandurah in October which hosted more than 3,000 Australian and international participants.

In recognition of our local bond groups, P&N was again a major sponsor of the Police Excellence Awards, Crimestoppers WA and was also a category sponsor of the WA Nursing and Midwifery Awards.

At a more grass roots level, P&N's Helping &nds Program allowed our members to direct support to deserving people in their own communities. Through Helping &nds nominations, members have facilitated support to many disadvantaged individuals and families, providing basic needs and funds where it is needed most. The true benefits of this program are found in the heartfelt stories of the recipients who are often lost for words when they learn of the support that is being provided through P&N's Helping &nds grants.

And I'm pleased to report that our commitment to the WA community will only increase should the merger proceed. By working together, our members and staff can continue to make a positive impact and help some of our fellow West Australians who need support.

Our Board

The Police & Nurses Limited Board comprises six member-elected Directors who work alongside three Board appointed Directors.

The complexity and responsibility of being a Director of a bank in Australia cannot be underestimated. I am very proud to lead a diverse and highly skilled Board of Directors who collectively possess the balance of skills and experience to foresee the challenges and to help steer P&N to seize the opportunities that lie ahead.

In a post Royal Commission environment we can expect an even greater focus by our regulators on governance, culture and accountability. It is therefore vital that our P&N Bank Board continues to adapt to ensure it attracts and retains the right calibre of Directors to oversee the future strategic direction of the Bank.

Our Board has undergone some changes during the past year where at the 2018 AGM we saw the departure of Wayne Gregson, who decided not to renominate for a further term, the election of Trevor Hunt and following a few years absence, the re-election of Alan Philp.

P&N CEO Andrew Hadley with Variety WA's Katie O'Donnell and Shelley Farrell

Final words from the Chair

In closing, it has been another busy and rewarding year. I would like to thank our Board of Directors who, in addition to their existing responsibilities, have been heavily involved in the consideration and assessment of the bcu merger proposal. As a Board, we unanimously believe that the merger is in the best interests of our members.

To our CEO, Andrew Hadley and his executive team, management and staff, I would again like to thank you for your commitment and support. P&N's outstanding member advocacy scores are testament to the high levels of service and genuine relationships that our frontline teams enjoy with our members.

And most importantly, I would like to thank you, our members, for continuing to put your trust in us. Whether you are a longstanding member or are new to P&N, our aim is to continue to offer contemporary banking services and a superior banking experience both now and in the future.

In closing, I urge you to give due consideration to the merger proposal, and as a valued member, exercise your right to vote and in doing so, help to shape the future success of your Bank.

Paul M Gabb
Chair

CEO's Report

Global tensions, political uncertainty around the federal election, a tough domestic economy and declining house prices in WA resulted in significant headwinds that were further underscored in June and July when the Reserve Bank of Australia cut the Official Cash Rate to an unprecedented low of 1%. Against this backdrop, we were pleased with our home loan growth of 4.1% which was supported by a 2.5% net growth in membership to 96,386 members. The P&N Group delivered a solid net profit after tax of $10.3 million.

Throughout the year P&N continued to invest in new and enhanced offerings for our members while managing our operating costs and fulfilling the growing number of regulatory and compliance obligations.

Competition, disruption and emerging technologies are now a given in banking. It is essential that we keep pace to deliver innovative and contemporary services while offering our most competitive rates not only to new members, but just as importantly to our existing loyal members.

Setting interest rates in this record low interest rate environment is problematic and I can simply assure our members, both borrowers and depositors, that we will continue to keep your best interests at heart as we seek to create value for all.

"Throughout the year P&N continued to invest in new and enhanced offerings for our members while managing our operating costs and fulfilling the growing number of regulatory and compliance obligations."

The Hayne Royal Commission

The Hayne Royal Commission drove much of the narrative in banking over the past 12 months. P&N Bank was not required to appear before the Commission however, our Board and Executive followed the hearings and findings closely, continuing to review and test P&N's customer centric culture, governance and risk management practices to ensure that they are appropriately strong and robust.

It will be disappointing if the increasing regulatory burden in a post Royal Commission environment inadvertently penalises smaller organisations and we will continue to advocate for targeted, proportionate regulation that creates a more level playing field between customer-owned banking organisations such as ours and the major banks.

Our new Head Office

In April, P&N's Head Office moved to new premises at 556 Wellington Street. After ten years, we had outgrown our Stirling Street premises and our people needed a more digitally enhanced and flexible workplace to continue to best serve our members. Taking advantage of cheaper leasing rates, we took the opportunity to create an innovative and collaborative workspace located in Kings Square close to public transport and the amenity of the CBD. As well as prominent building signage and a new member service hub, our staff are enjoying the benefits and amenities of our new contemporary office and digital workplace.

P&N's new Wellington Street Head Office

P&N's Drew and Svenja enjoying the new P&N Head Office

Our Warwick team celebrating the opening of our new-look Discovery Store

Digital banking enhancements

P&N was the first bank in the country to launch instant digital cards. As well as attracting significant media attention, P&N received several industry awards for solving this long-standing pain point for members whose card has been lost or stolen.

The innovative new functionality allows cards to be replaced instantly, within a digital wallet, removing the inconvenience of waiting up to 14 days for a replacement card to arrive in the mail. Furthermore, members now have more control at their fingertips in managing the functionality of their cards.

Our digital banking has been further enhanced with several new releases and upgrades to our award-winning banking app, making banking on the go even easier.

Our website has also been improved with new functionality allowing personal loan and credit card applications online. We are now working on the introduction of an end-to-end online home loan portal that we plan to launch in 2020.

Our Discovery Stores and Contact Centre

Underscoring our commitment to our branch network, we have invested in upgrades to four of P&N's Discovery Stores rolling out our new design and layout that offers greater convenience and comfort for those members who enjoy a face to face experience, quality conversations or a private meeting.

Ocean Keys, Maddington, Morley and Warwick members and staff are enjoying their newly refurbished stores with more upgrades already planned for our network in 2020.

As well as our digital channels and branches, our Perth-based Contact Centre operates six days a week assisting thousands of members weekly and our multimedia channel is growing in popularity, providing another communication option for those members who prefer live webchat.

The P&N Bank Digital team

P&N's Eilish, Anna and Kellie promoting our customer-owned campaign "Why is we better for me?"

CEO's Report

bcu merger

The P&N of today has a proud history and is the culmination of many successful mergers. I am committed to ensuring that the heritage, the brand and the P&N identity are both protected and respected.

Further consolidation of the customer-owned banking sector is inevitable. The proposed merger with bcu will deliver necessary scale and efficiencies that create value for members and allow us to better influence our future direction.

Members will see tangible benefits, including an enhanced small business banking offering that we will roll out to our members who run small to medium sized businesses as soon as is practical.

Similar to the Chair, I can only encourage you to read your member information pack and exercise your right to vote on the future of P&N Bank.

Economic outlook

As I alluded to earlier, there is currently a lot of uncertainty around the global economy with momentum waning. The trade tensions between China and the USA have escalated in recent months and could impact global growth which would have knock on effects for Australia if the slowdown in the global economy becomes more entrenched.

On the domestic front, economic momentum is expected to stabilise over the remainder of 2019 and more recently some signs of recovery are becoming evident.

House price declines now appear to have stabilised across Western Australia and housing credit has recently moved back into positive growth, with the trend gathering some momentum since the federal election outcome in May alongside lower mortgage rates, tax cuts and improved borrowing capacity.

The silver lining around the housing downturn is that house and unit values for Western Australia are now amongst the most affordable in the country with population growth (i.e. housing demand) improving as interstate and overseas migration start to lift.

P&N CEO Andrew Hadley with staff members Belinda and Sean

Our financial results

- The Group delivered net profit after tax of $10.3 million, a decrease of 14.9% largely due to fee reductions, a legacy property development provision and one-off merger costs.
- The Group's profit before tax decreased by 11.2% from $16.8 million to $14.9 million.
- Group net interest income increased by $3.13 million up 4.3% to $75.5 million.
- Total Group assets increased $118.9 million to $4,268.1 million.
- Total Group member funds, including retained earnings increased by $4.8 million up 1.69% to $290.6 million.
- The Bank's net profit after tax was $9.7 million down 20.3% from the previous year's $12.2 million in a challenging environment.
- The Bank's capital adequacy ratio of 15.0% remains healthy and higher than the minimum ratio required by our regulator.
- Total Bank assets increased by $126.3 million, up 3.0% to $4,273.4 million following sound growth in loans and advances of $123.5 million, up 3.5%.
- The Bank's member deposits increased by 6.9% or $205.9 million to $3,177.1 million.

Active member numbers grew by 2.5% to 96,386 over the course of 2018/2019.

Acknowledgements

I wish to thank the Board and particularly the Chair, Paul Gabb, for their support and commitment to shaping the future direction of our organisation.

To my executive team, the broader management group and to all our hard-working staff, can I acknowledge your dedication and commitment to our members. It has been an extraordinary year with merger preparations, a relocation of our Head Office and I am immensely proud to lead an organisation with such positive culture, engagement and teamwork, a testament to our strong values.

And finally, thank you to our members, for your ongoing support and loyalty. I ask that you participate in the merger vote to secure a stronger and brighter future for our members and our staff.

Andrew Hadley
Chief Executive Officer

Highlights

OUR MEMBERS

FOUR NEW LOOK DISCOVERY STORES
INNALOO • MORLEY • OCEAN KEYS • WARWICK

ROY MORGAN CUSTOMER SATISFACTION AWARDS
- May 2019 (93% customer satisfaction)
- April 2019 (94%)
- July 2018 (93%)

BANK OF THE MONTH ★★★

+67 **NET PROMOTER SCORE***
FEBRUARY 2019

OUR PEOPLE

NEW PERTH
HEAD OFFICE
TO DELIVER A WORKPLACE FOR THE FUTURE

54% WOMEN IN LEADERSHIP

92% OF ALL STAFF COMPLETED MENTAL HEALTH TRAINING

82.5% STAFF ENGAGEMENT^

WOMEN'S DEVELOPMENT NETWORK AND P&N DIVERSITY ADVOCATES NETWORK ESTABLISHED

INNOVATION

6 MOBILE APP UPDATE RELEASES INTRODUCING A RANGE OF **NEW FUNCTIONALITY**

ONLINE APPLY LAUNCHED
MEMBERS CAN APPLY FOR CREDIT CARDS AND PERSONAL LOANS ON THE P&N WEBSITE

★★★ AWARDS ★★★
- AIM WA PINNACLE AWARDS 2018/19 WINNER – INNOVATION EXCELLENCE
- CANSTAR INNOVATION EXCELLENCE AWARD 2019
- MOZO EXPERTS CHOICE AWARDS 2019 – EXCELLENT BANKING APP

COMMUNITY SUPPORT

Helping &nds

40 SMALL NOT FOR PROFIT GROUPS

24 DESERVING FAMILIES AND INDIVIDUALS

OUR COMMUNITY PARTNERS

the fathering project • Lifeline WA • variety the children's charity

* Net Promoter Score (NPS) is a customer advocacy measure, from -100 to +100.
^ Top quartile of global organisations who measure engagement.

ENRICHING THE LIVES

OF OUR MEMBERS AND THEIR COMMUNITIES.

Clockwise from top left
2018 P&N Bank Individual Winner of the WA Police Excellence Awards, Senior Sergeant Darryl Brandis; Variety WA fundraising volunteers at the 2018 Christmas Symphony; a young fan at a Perth Wildcats P&N Bank Game Night; Variety WA Motor Mouth participant Jana; philanthropist Dr Ros Worthington OAM with P&N's Anna Pearce at our 2019 Flourish partnerships event; P&N staff members Mel, Tami and Lisa fundraising for Lifeline WA; A Dad's Group from The Fathering Project.

Report of the Directors

Your Directors present their report on the financial statements of Police & Nurses Limited (Bank) and Police & Nurses Limited and its controlled entities (Group) for the year ended 30 June 2019.

Corporate Governance

The Board of Directors of the Bank (**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 or since the end of the year and, unless otherwise stated, at the date of this report:

Paul Marshall GABB
(Chair) B.Com (Accounting) CPA FAICD Grad Cert (Forensic Accounting)

Executive - Australian Federal Police, 21 years' service as a Director of the Bank; 33 years' service in Law Enforcement. Audit Committee member and Board Governance and Remuneration Committee member, in each case to 26 November 2018. The Chair became an ex-officio member of all board committees from 26 November 2018.

Stephen John MELVILLE
(Deputy Chair) B.Bus (Accounting) FCPA GAICD

Director - Corporate Services, Department of Jobs, Tourism, Science & Innovation, 25 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. Nominations Committee Chair and Risk Committee member. Audit Committee member to 26 November 2018.

Wayne GREGSON
APM BA MBA PhD FAICD (retired 7 November 2018)

Former Commissioner, Department of Fire & Emergency Services WA, 32 years' service as a Police Officer, 10 years' service as a Director of the Bank. Board Governance and Remuneration Committee member to 7 November 2018.

Eric Laurence SMITH
FAICD FAMI

Detective Inspector – WA Police Force, 43 years' service. Certificate in Police Studies, Diploma of Policing, Advanced 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). 25 years' service as a Director of the Bank. Audit Committee Chair to 26 November 2018 and Audit Committee member from that date. Board Governance and Remuneration Committee member.

Kellie Louise PROPERJOHN
APM, GAICD

Assistant Commissioner WA Police Force, 33 years' service. Graduate Certificate of Business (Leadership), Associate Degree in Criminology and Justice (Policing), Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Advanced Diploma of Criminal Analysis, Advanced Diploma of Business Management, Diploma of Police Training (Criminal Investigation). Risk Committee Member to 26 November 2018. Board Governance & Remuneration Committee member and Audit Committee member, in each case from 26 November 2018.

Edwin Roy BRADLEY
MBA BBus GAICD FCPA SF Fin

Consultant with 40 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. Seven years' service as a Director of the Bank. Audit Committee member to 26 November 2018. Risk Committee Chair and Board Governance & Remuneration Committee member from 26 November 2018.

Julie Ann ELLIOTT
FAICD FCA FFin MBA (Exec) BEc

Experienced banking and finance executive with over 35 years' experience across retail banking, commercial banking, payments, wealth management, project management, accounting and audit. Audit Committee member and Board Governance and Remuneration Committee Chair.

Andrew Douglas HADLEY
BCom GAICD SFFin

CEO of P&N Bank since 2014 and Executive Director of the Bank since 2016, with over 25 years of broad financial services experience.

Trevor Joel HUNT
BBus (appointed 16 July 2018)

Experienced retail banking and financial services professional. Appointed to the Board on 16 July 2018. Risk Committee member from 16 July 2018 and Audit Committee Chair from 26 November 2018.

Alan Craig PHILP
Dip Nursing & midwifery BA HSc Masters of Public Health GAICD (appointed 7 November 2018)

Executive Group Manager, Prevention and Population Health, Health Systems, Policy and Research, ACT Health. 39 years in the nursing profession, 43 years as a member of the Bank. Risk Committee member from 26 November 2018.

Each Director holds one member share in the Bank.

Company Secretaries

Jacqueline Anne DONALD
LLB (Hons)

General Counsel and Company Secretary of the Bank with over 19 years' corporate law experience. Has held senior legal roles in private practice law firms in Australia and the United Kingdom. Admitted as a solicitor in Scotland in 2000, admitted as a solicitor in New South Wales in 2009 and holds a current Western Australian legal practising certificate.

Jennifer Anne HANDZ
BJuris LLB (appointed 25 March 2019)

General Counsel and Company Secretary of the Bank (May 2015 - December 2017 and from 25 March 2019), with over 30 years' banking and finance, restructuring and corporate law experience. Has held senior legal roles in Perth, Beijing, London, Moscow, Hanoi and Warsaw. Admitted as a solicitor and barrister to the Supreme Court of Western Australia in 1987.

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 of:
  - no more than six member elected directors, provided that at all times the Board is comprised of a majority of member elected directors;
  - no more than three board appointed directors; and
  - if the Board so determines, the Chief Executive Officer;
- the Board comprises of 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.

Report of the Directors

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2019 and the number of meetings attended by each Director.

Director	Directors' Meetings		Audit Committee Meetings		Risk Committee Meetings		Board Governance and Remuneration Committee Meetings	
Member elected directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
P M Gabb	12	12	3	3	*	*	3	3
S J Melville**	12	12	2	2	7	7	*	*
W Gregson	4	3	*	*	*	*	2	1
E L Smith	12	11	5	5	*	*	5	4
K L Properjohn	12	11	2	2	3	2	2	2
T J Hunt	12	12	2	2	5	5	*	*
A C Philp	8	8	*	*	4	4	*	*
Board appointed directors								
E R Bradley	12	11	3	3	7	7	2	2
J A Elliott	12	12	5	5	*	*	5	5
A D Hadley***	12	12	*	*	*	*	*	*

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.

** The Nominations Committee held one meeting, which was fully attended. This meeting was chaired by Mr Steve Melville and included two independent attendees.

*** During the year Mr Hadley was an attendee at each of the meetings of the Audit Committee, Risk Committee and Board Governance and Remuneration Committee.

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 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 four 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.

Risk Committee

The Board has established the Risk Committee to assist in the execution of its responsibilities. The Committee comprises four 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 and operational, credit, market, capital and liquidity risk.

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

Board Governance and Remuneration Committee

The Board has established the Board Governance and Remuneration Committee to assist it in the execution of its responsibilities. The Committee comprises four Board members.

This Committee has written terms of reference, which outline 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, by providing informed feedback to the Board on its performance, to establish a framework to assist the Board to assess the performance of each Director and the Chief Executive Officer and to assist the Board in relation to remuneration related practices and policies. An appraisal of the Board's performance is conducted annually, with an independent consultant engaged to facilitate the process at least every third year. The Chair of the Board through the Board Governance and Remuneration 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.

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 outline its roles and responsibilities. The Committee comprises a Chair 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 required 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 personal interest in any matter that relates to the affairs of the Bank must disclose that interest under section 191 of the *Corporations Act 2001* (Cth), and that Board member may not be present at a Board meeting considering that matter, or vote on that matter, unless permitted by section 195 of the *Corporations Act 2001* (Cth).

Review of Operations

Despite tough economic conditions, the underlying overall loans and advances grew 3.5%. More encouraging was the underlying growth in retail home loans which grew 4.1% on the back of favourable pricing given to our members whilst stabilising net interest margin at 1.81% (2018: 1.82%). Overall net interest income grew 4.3% for the year. Interest income growth was offset by a 14% reduction in non-interest income as we have made a conscious decision to reduce fee charges to members.

Overall profit attributable to members for the Group was $10.3 million which is 14.9% down from the prior year. This is largely due to the reduction in non-interest income and after allowing for cost growth of 3% which includes costs associated with due diligence activities for the proposed planned merger with bcu.

Costs associated with the completion of the Head Office relocation into the Perth CBD has been managed within the existing cost profile and will help contribute to lower running costs in future years.

The Group's balance sheet remains strong supported by a healthy total capital ratio at 14.93% which will support the future growth of the business.

No dividend has or shall be paid in respect of any share.

Report of the Directors

Outlook

The low interest rate environment and slow pace of credit recovery in Western Australia will continue for some time placing pressure on net interest margin. We do anticipate a continued decline in non-interest revenue as we adapt to the changes in the regulatory environment and continuously review our products to identify opportunities to increase value for our members.

We continue to invest in our digital channels to improve member experience and functionality.

Significant Changes

We draw your attention to the fact that new accounting standards relating to financial instruments were implemented during the year which requires the Group to change the way in which it measures and accounts for provisions for losses in financial assets. This change introduced the concept of a collective provision which measures the level of impairments to be held using complex models which look at both past performance of the banking book and consider forward looking macro-economic environment variables. In line with the adoption of the new accounting standards AASB 9, a provision of $3,284,000 (after tax for the Group) was created through equity on 1 July 2018.

The Group relocated its Head Office to be more central in the CBD. There has been no other significant change in the operations of the Group or Bank during the financial year.

Principal Activities

There were no changes to the principal activities of the Group and the Bank which comprise the provision of financial and associated services to members.

Events Subsequent to the End of the Financial Year

We have called for the full repayment of the outstanding non performing loan pertaining to the property development due from Pindan Capital Two Rocks Pty Ltd.

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. The need to consider the climate and environment is particularly acute in Australia. Environmental awareness, sustainability and mitigating the growing risk of negative climate change outcomes will be a focus going forward. The Group is developing a new policy to determine how to influence positive climate and environmental sustainability outcomes across the Group's operations.

Insurance of Officers

The officers of the Bank which include Directors, Executive Officers, Company Secretaries and employees, are covered by insurance. 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.

Auditors' Independence Declaration

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

Rounding of Amounts

The Bank is a company of a kind referred to in Legislative Instrument 2016/191, 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 Legislative Instrument 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

P M GABB
Director

S J MELVILLE
Director

Date: 29 August 2019
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 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Douglas Craig
Partner
PricewaterhouseCoopers

Perth
29 August 2019

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Income Statements

Year Ended 30 June 2019	Notes	Consolidated		Police & Nurses Limited	
		2019	2018	**2019**	2018
		$000	$000	**$000**	$000
Interest revenue	3	**161,378**	153,738	**187,146**	179,142
Interest expense	3	**85,888**	81,380	**117,048**	111,039
Net interest income		**75,490**	72,358	**70,098**	68,103
Non-interest revenue					
Loan fee revenue		**2,392**	2,619	**2,392**	2,619
Financial services fees		**2,828**	2,932	**2,828**	2,932
Financial planning fees		**2,645**	2,926	**-**	-
Amenity fees		**-**	392	**-**	-
Other fee revenue		**513**	496	**515**	501
Securitisation servicing fees		**-**	-	**4,747**	5,232
Insurance commissions		**2,971**	3,053	**2,971**	3,053
Other commissions		**2,196**	2,127	**2,196**	2,127
Dividend revenue		**287**	713	**465**	1,216
Other income					
Bad debts recovered		**364**	455	**364**	455
Other income		**1,691**	2,795	**1,470**	1,650
Total non-interest revenue and other income		**15,887**	18,508	**17,948**	19,785
Total income		**91,377**	90,866	**88,046**	87,888
Credit impairment loss	4	**3,555**	3,287	**3,507**	3,287
Other expenses					
Finance costs		**980**	760	**980**	760
Depreciation and amortisation		**5,041**	5,059	**5,013**	5,035
Fees and commissions		**7,664**	7,798	**7,416**	7,558
Property development costs		**-**	14	**-**	-
Employee benefits expense		**33,840**	32,871	**32,316**	30,837
Information technology costs		**6,813**	6,327	**6,720**	6,233
Marketing costs		**3,962**	3,710	**3,947**	3,691
Other general and administration costs		**8,187**	8,404	**7,568**	7,677
Net loss on disposal of property, equipment and intangible assets		**367**	1	**381**	1
Rental - operating leases		**6,061**	5,852	**6,061**	5,852
Total expenditure		**76,470**	74,083	**73,909**	70,931
Profit before income tax		**14,907**	16,783	**14,137**	16,957
Income tax expense	5	**4,538**	4,680	**4,450**	4,795
Profit for the year		**10,369**	12,103	**9,687**	12,162
(Profit)/loss attributable to non-controlling interests		**(53)**	18	**-**	-
Profit attributable to members		**10,316**	12,121	**9,687**	12,162

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

Statements of Comprehensive Income

Year Ended 30 June 2019	Notes	Consolidated		Police & Nurses Limited	
		2019	2018	**2019**	2018
		$000	$000	**$000**	$000
Profit for the year		**10,369**	12,103	**9,687**	12,162
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	27(c)	**(364)**	313	**(364)**	313
Income tax relating to these items	5(c)	**109**	(94)	**109**	(94)
Items that will not be reclassified to profit or loss					
Changes in the fair value of financial assets held at FVOCI	27(d)	**(2,000)**	-	**-**	-
Other comprehensive income for the period, net of tax		**(2,255)**	219	**(255)**	219
Total comprehensive income for the period		**8,114**	12,322	**9,432**	12,381
Total comprehensive income for the year is attributable to:					
Members of the Bank		**8,061**	12,340	**9,432**	12,381
Non-controlling interests		**53**	(18)	**-**	-
		8,114	12,322	**9,432**	12,381

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

Balance Sheets

As at 30 June 2019	Notes	Consolidated		Police & Nurses Limited	
		2019 $000	2018 $000	2019 $000	2018 $000
Assets					
Cash and cash equivalents	6	**91,369**	141,244	**57,227**	92,865
Receivables due from other financial institutions	7	**437,674**	397,972	**437,674**	397,972
Financial Assets held at FVOCI (i)	8	**6,562**	-	**6,562**	-
Assets held for sale	9	**618**	1,234	**-**	-
Other assets	10	**5,365**	34,238	**4,333**	4,446
Other financial assets held at AC (ii)	11	**24,601**	-	**367**	-
Other financial assets held at FVPL (iii)	12	**1,131**	-	**15,916**	-
Loans and advances	14	**3,674,715**	3,551,253	**3,674,715**	3,551,253
Derivative financial instruments	16	**94**	112	**94**	96
Available for sale financial assets	13	**-**	8,625	**-**	6,562
Due from controlled entities	17	**-**	-	**47,165**	77,922
Property and equipment	18	**15,026**	4,956	**14,981**	4,915
Investments in controlled entities	19	**-**	-	**4,755**	2,755
Intangible assets	20	**7,230**	7,511	**5,658**	5,939
Deferred tax assets	21	**3,713**	2,065	**3,916**	2,340
Total assets		**4,268,098**	4,149,210	**4,273,363**	4,147,065
Liabilities					
Members' deposits	22	**3,176,461**	2,970,662	**3,177,113**	2,971,226
Accrued interest and other payables	23	**-**	20,277	**-**	19,599
Other payable	23	**14,469**	-	**14,067**	-
Derivative financial instruments	16	**552**	206	**449**	101
Current tax liabilities		**477**	3,398	**441**	3,418
Borrowings	24	**781,423**	864,575	**395,413**	359,899
Due to controlled entities	17	**-**	-	**391,761**	504,594
Provisions	25	**4,071**	4,277	**3,814**	3,982
Deferred tax liabilities	26	**-**	-	**-**	-
Total liabilities		**3,977,453**	3,863,395	**3,983,058**	3,862,819
Net assets		**290,645**	285,815	**290,305**	284,246
Members' funds					
Reserves	27	**221,116**	223,342	**223,116**	223,342
Retained earnings	27	**68,887**	61,884	**67,189**	60,904
Non-controlling interests		**642**	589	**-**	-
Total members' funds		**290,645**	285,815	**290,305**	284,246

New categories added to correctly reflect the impact of AASB 9.

(i) Financial assets held at FVOCI: Financial assets held at fair value through other comprehensive income.

(ii) Other financial assets held at AC: Other financial assets held at amortised cost.

(iii) Other financial assets held at FVPL: Other financial assets held at fair value through profit and loss.

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

Statements of Changes in Equity

Year Ended 30 June 2019	Notes	Consolidated			
		Reserves	Retained earnings	Non-controlling interests	Total
		$000	$000	$000	$000
Total member's funds (equity) as at 30 June 2017		223,091	49,795	607	273,493
Profit for the year		-	12,103	-	12,103
Profit attributable to non-controlling interests		-	18	(18)	-
Amount transferred to share capital reserve		32	(32)	-	-
Changes in the fair value of cash flow hedges, net of tax		219	-	-	219
Total member's funds (equity) as at 30 June 2018		223,342	61,884	589	285,815
Impact of transition to AASB 9	1	-	(3,284)	-	(3,284)
Restated total member's funds as at 1 July 2018		**223,342**	**58,600**	**589**	**282,531**
Profit for the year		-	10,369	-	10,369
Profit attributable to non-controlling interests		-	(53)	53	-
Amount transferred to share capital reserve	27(b)	29	(29)	-	-
Changes in the fair value of cash flow hedges, net of tax	27(c)	(255)	-	-	(255)
Changes in the fair value of financial assets held at FVOCI	27(d)	(2,000)	-	-	(2,000)
Total member's funds (equity) as at 30 June 2019		**221,116**	**68,887**	**642**	**290,645**

Year Ended 30 June 2019	Notes	Police & Nurses Limited			
		Reserves	Retained earnings	Non-controlling interests	Total
		$000	$000	$000	$000
Total member's funds (equity) as at 30 June 2017		223,091	48,774	-	271,865
Profit for the year		-	12,162	-	12,162
Amount transferred to share capital reserve		32	(32)	-	-
Changes in the fair value of cash flow hedges, net of tax		219	-	-	219
Total member's funds (equity) as at 30 June 2018		223,342	60,904	-	284,246
Impact of transition to AASB 9	1	-	(3,373)	-	(3,373)
Restated total member's funds as at 1 July 2018		**223,342**	**57,531**	**-**	**280,873**
Profit for the year		-	9,687	-	9,687
Profit attributable to non-controlling interests		-	-	-	-
Amount transferred to share capital reserve	27(b)	29	(29)	-	-
Changes in the fair value of cash flow hedges, net of tax	27(c)	(255)	-	-	(255)
Changes in the fair value of financial assets held at FVOCI	27(d)	-	-	-	-
Total member's funds (equity) as at 30 June 2019		**223,116**	**67,189**	**-**	**290,305**

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

Cash Flow Statements

Year Ended 30 June 2019	Notes	Consolidated		Police & Nurses Limited	
		2019	2018	**2019**	2018
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**144,413**	140,519	**144,413**	140,519
Net increase in loans and advances		**(129,939)**	(179,237)	**(129,979)**	(179,237)
Net movement in receivables due from other financial institutions		**(39,702)**	(3,204)	**(39,702)**	(3,204)
Interest received from investments		**17,072**	13,369	**42,839**	38,772
Commissions and other income received		**17,461**	17,334	**15,894**	18,935
Net increase in members' deposits		**206,090**	133,456	**206,123**	132,388
Net borrowings from other financial institutions		**(83,153)**	28,832	**35,514**	4,611
Borrowing costs - members		**(76,863)**	(61,803)	**(76,870)**	(61,813)
Net movement in interest rate swaps		**16**	(25)	**2**	222
Borrowing costs - banks		**(22,068)**	(21,579)	**(53,221)**	(51,228)
Payments to employees and suppliers		**(59,895)**	(61,048)	**(57,039)**	(57,361)
Income taxes paid		**(9,014)**	(4,809)	**(9,294)**	(5,039)
Net cash (outflow)/inflow from operating activities	28	**(35,582)**	1,805	**78,680**	(22,435)
Cash flows from investing activities					
Dividends received		287	713	120	241
Proceeds from sale of property and equipment		(109)	117	(121)	117
Net proceeds from sale of assets & liabilities held for sale		616	7,372	-	-
Net movement in other investments		-	-	(2,000)	-
Payments for property and equipment		(13,024)	(783)	(12,992)	(777)
Payments for intangible assets		(2,065)	(2,031)	(2,065)	(2,031)
Loans to/repayments from controlled entities		-	-	(97,262)	30,618
Net cash outflow from investing activities		**(14,295)**	**5,388**	**(114,320)**	**28,168**
Cash flows from financing activities					
Member shares issued		75	72	75	72
Member shares redeemed		(73)	(32)	(73)	(32)
Net cash inflow from financing activities		2	40	2	40
Net (decrease)/increase in cash and cash equivalents held		(49,875)	7,233	(35,638)	5,773
Cash and cash equivalents at the beginning of the year		141,244	134,011	92,865	87,092
Cash and cash equivalents at the end of the year	6	**91,369**	**141,244**	**57,227**	**92,865**

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

Notes to the Financial Statements

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"). The parent company of the Group is the Bank.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets, financial assets and liabilities (including derivative instruments) – measured at fair value
- assets held for sale – measured at the lower of carrying amount or fair value less cost of disposal.

Comparatives

Comparative balances in the income statement and balance sheet have been reclassified where appropriate.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2016-5 *Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions*
- AASB 2017-1 *Amendments to Australian Accounting Standards - Transfers to Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration*.

The group had to change its accounting policies and make certain retrospective adjustments following the adoption of AASB 9 and AASB 15 as disclosed in note 1(ab). Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(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 control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are 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(v)).

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 financial statements.

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

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.

For joint operations, the Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses.

These are incorporated in the financial statements under the appropriate headings.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Loan provisioning

From 1 July 2018, the Group assesses on a forward-looking basis the Expected Credit Loss (ECL) associated with Loans. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Provisions are calculated using an ECL model that determines potential losses from observing default and delinquency correlations in the loan book together with forward looking macro-economic variables. Refer note 1(ab) for further details.

(d) Property and equipment

Property and equipment 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.

Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	3 - 10 years
Plant and equipment	3 - 10 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(f)).

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

An asset may be derecognised when its carrying amount is fully written down.

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

(e) 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 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.

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 (3 to 10 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. An asset may be derecognised when its carrying amount is fully written down.

(f) Impairment of non-financial 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

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets (continued)

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 of disposal 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 balance sheet date.

(g) 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.

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.

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 (note 5(e)).

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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Employee benefits

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

(i) Interest

Interest on members' loans is calculated on an accrual basis using the effective interest method. For non performing loans interest is charged to the account but is held as interest reserved and not recognised in the income statement. 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.

(j) 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.

(k) 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. See note 1(ab) for further information about the Group's accounting policies for financial instruments and related impairment.

(l) 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.

Interest revenue relating to loan accounts with mortgage offsets, is presented on a net basis in revenue to reflect how the member is charged.

Dividend distributions from sale of financial assets are recognised when the right to receive payment is established.

Revenue earned by the Group from its contracts with customers primarily consists of fee and commission income, securitisation service fee and amenities fee. See note 1(ab) for further information about the Group's accounting policies for revenue from contracts with customers.

(m) 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.

(n) 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.

See note 1(ab) for further information about the Group's accounting policies for financial instruments including derivatives and hedge accounting.

(o) Fair value estimation

The fair value of assets and liabilities must be estimated for recognition and measurement and is determined according to a hierarchy that reflects the observability of significant market inputs. The three levels of the hierarchy are defined below:

Level 1 - Quoted market prices

The fair values of financial instruments that are traded in active markets are based on quoted market prices at the balance sheet date.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Fair value estimation (continued)

Level 2 - Valuation technique using observable inputs

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.

Level 3 - Valuation technique using significant unobservable inputs

The unobservable inputs valuation technique is used where one or more of the significant inputs is not based on observable market data.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

(p) 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 accrued interest and other payables.

(q) 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.

(r) 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 and management fees. These fees are recognised over the period in which the relevant costs are borne. The Bank also provides arm's length liquidity facilities to the program in accordance with APRA Prudential Guidelines. In addition, the Bank may receive residual income, comprising mortgage loan interest not due to the investors less trust expenses.

The timing and amount of 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 residual income receivable is not recognised as an asset and no gain is recognised when loans are sold. The residual income is therefore recognised when receivable/payable and is included in net interest income.

(s) Other payables

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.

(t) Loan origination fees and transaction costs

Loan origination fees including broker commissions 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.

(u) 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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 and loss.

(w) Leases

Leases of property 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 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.

(x) 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Assets and liabilities associated with assets held for sale

Non current assets are classified as assets held for sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

(z) Rounding of amounts

The Bank is a company of a kind referred to in Legislative Instrument 2016/191, 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 Legislative Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(aa) New accounting standards not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been adopted early by the Group. The following accounting standard has not yet been adopted which is relevant to the Group and expected to impact its financial report upon adoption:

AASB 16 Leases

This standard removes the classification of leases as either operating leases or finance leases (for the lessee) effectively treating all leases as finance leases and, subject to limited exceptions, requires all leases to be capitalised on the balance sheet. Lessor accounting would remain similar to current practice. AASB 16 is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

Management has reviewed all of the Group's leasing arrangements in light of the requirements of AASB 16 and elected to apply the modified retrospective approach as permitted by AASB 16. Under the modified retrospective transition approach, prior period comparative financial statements are not restated and the Group can choose between two alternate methods of measuring the lease assets on a lease by lease basis. The Group will measure the lease assets for existing operating leases as if AASB 16 had always been applied. The resulting transition adjustment will be recognised as an adjustment to the Group's retained earnings as at 1 July 2019.

Based on the elected transition method, the Group will recognise lease liabilities of approximately $23,286,000 and lease assets of approximately $19,446,000. After adjusting for amounts currently recorded on the balance sheet (representing the difference between the cumulative lease expense recognised, cash paid and incentives received on these leases included in payables of approximately $3,223,000), this results in a reduction to retained earnings of approximately $617,000.

The transition adjustment has, as permitted by AASB 16, been determined by the Group by electing practical expedients to not recognise short-term or low value leases on its balance sheet at the transition date.

Judgement has been applied by the Group in determining the transition adjustment which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists, the incremental borrowing rate of the Group, and the variability of future cash flows.

A schedule of current operating lease commitments is disclosed in note 29.

(ab) Impact on adoption of new standards and changes in accounting policies

This note explains the impact of the adoption of AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments on the Group's financial report and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

(i) AASB 15 Revenue from Contracts with Customers

Impact on adoption

AASB 15 replaces all previous revenue recognition standards, including AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. The Group has adopted AASB 15 from 1 July 2018 using the modified retrospective approach under which an entity recognises transition adjustments, if any, in retained earnings on the date of initial application. Given that the Group predominately deals in financial instruments, the adoption of this standard and its modified retrospective application did not result in any adjustments to the comparative amounts recognised in the financial statements and

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

only resulted in changes in accounting policies. The new accounting policies are set out below.

Changes in accounting policies applied from 1 July 2018

Revenue from contracts with customers is recognised when a customer obtains control of the promised good or service and the Group satisfies its performance obligations under the contract. Revenue is allocated to each performance obligation. The Group considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the Group expects to be entitled to in exchange for transferring the promised good or service.

Revenue earned by the Group from its contracts with customers primarily consists of the following categories:

- Fee and commission income on a range of banking products and services platforms, wealth services, credit cards, financial planning fees, structuring fees, lending services, stock borrowings and lending activities and income on structured products which are recognised when the related performance obligation is satisfied either over time or at a point in time.
- Amenities fee revenue, included in other fee revenue, is received from 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 over the period of dwelling on a daily basis at a percentage of the estimate of the value of the dwelling at balance sheet date.

(ii) AASB 9 Financial Instruments

Impact on adoption

AASB 9 replaced AASB 139 Financial Instruments effective for financial years commencing after 1 January 2018. Effective 1 July 2018 the Group has applied AASB 9 using the modified retrospective approach. Under this approach, the Group did not restate comparative financial statements and records. Transition adjustments were recorded in the opening balance sheet and retained earnings as at 1 July 2018. Comparative periods, as permitted by AASB 9, have not been restated.

The main impacts of AASB 9 on the Group's books related to:

- Classification and Measurement of Financial Assets and Liabilities. In order to correctly capture AASB 9 changes, new balance sheet categories were created and former categories discontinued.
- Impairment methodology moved from the incurred loss model to a forward-looking ECL model.

Classification and Measurement

The two main drivers of classification and measurement of financial assets and liabilities under AASB 9 are the business model approach and the characteristics of contractual cash flow.

Business Model

A factual assessment based on how assets are managed drives the categorisation of financial instruments. Hold to Collect (”HtC”) assets are portfolios that generate value by collecting cashflows. Hold to Collect and Sell (“HtC&S”) portfolios generate value by collecting contractual cashflows and also by selling instruments.

Solely Payments of Principal and Interest Test

The contractual cash flow characteristics are analysed by applying the Solely Payments of Principal and Interest (“SPPI”) test. Where portfolios comprise of basic lending arrangements which are principal and interest, they meet the SPPI test. Where the SPPI test is satisfied and the debt securities are HtC they are valued at Amortised Cost (AC), and where the debt securities are HtC&S they are classed as Fair Value through Profit and Loss (FVPL).

New Categories of Financial Assets and Liabilities have been added to correctly capture these requirements of AASB 9.

New financial assets categories:

- Other Financial assets held at amortised cost (AC)
- Other Financial assets held at fair value through profit and loss (FVPL)
- Financial assets held at Fair Value through non-recyclable Other Comprehensive Income (FVOCI)

In addition equity securities previously booked as “available for sale financial assets” have now been reclassified into the new category “financial assets FVOCI”. The irrevocable election was made to fair value these through non-recyclable OCI, so even on derecognition of the asset, the Group will never recycle any gains and losses in the income statement.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Financial liabilities are classified and subsequently measured at amortised cost unless the Group is required to measure liabilities at FVTPL such as derivative liabilities.

Impairment methodology

Upon adoption of AASB 9, a simplified ECL model has been applied to all financial assets accounted for at amortised cost and FVOCI. Under the ECL model the Group calculates the provision for ECL by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The credit loss is the sum of these probability-weighted outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Note 34 provides more detail of how the ECL provision is measured.

The following tables show reconciliation of the carrying amounts under AASB 139 to the carrying amounts under AASB 9 on 1 July 2018, changes in measurement categories and other disclosures related to the initial adoption of AASB 9.

Classification and measurement

Reconciliation of carrying amounts as at 1 July 2018

As at 1 July 2018			Consolidated		
	Carrying amount 30 June 2018 AASB 139	Reclassification for AASB 9	Remeasurement for AASB 9	Reclassification of accrued interest	Carrying amount 1 July 2018 AASB 9
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	141,244	-	-	106	141,350
Receivables due from other financial institutions	397,972	-	(217)	160	397,915
Available for sale financial assets (i)	8,625	(8,625)	-	-	-
Financial assets held at FVOCI (i)	-	8,562	-	-	8,562
Other assets (iii)	34,238	(29,426)	-	(266)	4,546
Other financial assets held at AC	-	27,931	(1,746)	-	26,185
Other financial assets held at FVPL	-	1,558	-	-	1,558
Loans and advances	3,551,253	-	(2,731)	-	3,548,522
Derivative financial instruments	112	-	-	-	112
Deferred tax assets (ii)	2,065	-	1,410	-	3,475
Non financial assets - other	13,701	-	-	-	13,701
Total	**4,149,210**	**-**	**(3,284)**	**-**	**4,145,926**
Liabilities					
Members' deposits	2,970,662	-	-	11,966	2,982,628
Accrued interest and other payables (iii)	20,277	-	-	(12,063)	8,214
Derivative financial instruments	206	-	-	-	206
Current tax liabilities	3,398	-	-	-	3,398
Borrowings	864,575	-	-	97	864,672
Provisions	4,277	-	-	-	4,277
Total	**3,863,395**	**-**	**-**	**-**	**3,863,395**

(i) "Available for sale assets" are now categorised as "Financial assets held at FVOCI".

(ii) The remeasurement against deferred tax assets was the tax impact of the 1 July 2018 ECL.

(iii) Accrued interest was reclassified out of the categories "Other Assets" and "Accrued interest and other payables" and recognised against the relevant host transaction.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Reconciliation of carrying amounts as at 1 July 2018

As at 1 July 2018	Police & Nurses Limited				
	Carrying amount 30 June 2018 AASB 139	Reclassification for AASB 9	Remeasurement for AASB 9	Reclassification of accrued interest	Carrying amount 1 July 2018 AASB 9
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	92,865	-	-	106	92,971
Receivables due from other financial institutions	397,972	-	(217)	160	397,915
Available for sale financial assets (i)	6,562	(6,562)	-	-	-
Financial assets held at FVOCI	-	6,562	-	-	6,562
Other assets (iii)	4,446	(120)	-	(266)	4,060
Other financial assets held at AC	-	120	-	-	120
Other financial assets held at FVPL	-	18,255	-	-	18,255
Loans and advances	3,551,253	-	(2,731)	-	3,548,522
Derivative financial instruments	96	-	-	-	96
Due from controlled entities	77,922	(18,255)	(1,871)	-	57,796
Investment in controlled entities	2,755	-	-	-	2,755
Deferred tax assets (ii)	2,340	-	1,446	-	3,786
Non financial assets - other	10,854	-	-	-	10,854
Total	**4,147,065**	**-**	**(3,373)**	**-**	**4,143,692**
Liabilities					
Members' deposits	2,971,226	-	-	11,966	2,983,192
Accrued interest and other payables (iii)	19,599	-	-	(12,063)	7,536
Derivative financial instruments	101	-	-	-	101
Current tax liabilities	3,418	-	-	-	3,418
Borrowings	359,899	-	-	97	359,996
Due to controlled entities	504,594	-	-	-	504,594
Provisions	3,982	-	-	-	3,982
Total	**3,862,819**	**-**	**-**	**-**	**3,862,819**

(i) "Available for sale assets" are now categorised as "Financial assets held at FVOCI".

(ii) The remeasurement against deferred tax assets was the tax impact of the 1 July 2018 ECL.

(iii) Accrued interest was reclassified out of the categories "Other Assets" and "Accrued interest and other payables" and recognised against the relevant host transaction.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Reconciliation of changes in classification of financial instruments as at 1 July 2018

As at 1 July 2018	Notes	Consolidated			
		Original measurement under AASB 139	Carrying amount 30 June 2018 AASB 139 $000	Carrying amount 1 July 2018 AASB 9 $000	New measurement under AASB 9
Assets					
Cash and cash equivalents	6	Amortised Cost	141,244	141,350	Amortised Cost
Receivables due from other financial institutions	7	Amortised Cost	397,972	397,915	Amortised Cost
Available for sale financial assets	13	FVOCI	8,625	-	N/A
Financial assets held at FVOCI	8	N/A	-	8,562	FVOCI
Other assets	10	Various	34,238	4,546	N/A
Other financial assets held at AC	11	N/A	-	26,185	Amortised Cost
Other financial assets held at FVPL	12	N/A	-	1,558	FVPL
Loans and advances	14	Amortised Cost	3,551,253	3,548,522	Amortised Cost
Derivative financial instruments	16	FVPL	112	112	FVPL
Due from controlled entities	17	Amortised Cost	-	-	Amortised Cost
Investment in controlled entities	19	N/A	-	-	N/A
Deferred tax assets	21	N/A	2,065	3,475	N/A
Non financial assets - other		N/A	13,701	13,701	N/A
Total			**4,149,210**	**4,145,926**	
Liabilities					
Members' deposits	22	Amortised Cost	2,970,662	2,982,628	Amortised Cost
Accrued interest and other payables	23	Amortised Cost	20,277	8,214	Amortised Cost
Derivative financial instruments	16	FVOCI	206	206	FVOCI
Current tax liabilities		N/A	3,398	3,398	N/A
Borrowings	24	Amortised Cost	864,575	864,672	Amortised Cost
Due to controlled entities	17	Amortised Cost	-	-	Amortised Cost
Provisions	25	N/A	4,277	4,277	N/A
Deferred tax liabilities	26	N/A	-	-	N/A
Total			**3,863,395**	**3,863,395**	

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Reconciliation of changes in classification of financial instruments as at 1 July 2018

As at 1 July 2018	Notes	Police & Nurses Limited			
		Original measurement under AASB 139	Carrying amount 30 June 2018 AASB 139 $000	Carrying amount 1 July 2018 AASB 9 $000	New measurement under AASB 9
Assets					
Cash and cash equivalents	6	Amortised Cost	92,865	92,971	Amortised Cost
Receivables due from other financial institutions	7	Amortised Cost	397,972	397,915	Amortised Cost
Available for sale financial assets	13	FVOCI	6,562	-	N/A
Financial assets held at FVOCI	8	N/A	-	6,562	FVOCI
Other assets	10	Various	4,446	4,060	N/A
Other financial assets held at AC	11	N/A	-	120	Amortised Cost
Other financial assets held at FVPL	12	N/A	-	18,255	FVPL
Loans and advances	14	Amortised Cost	3,551,253	3,548,522	Amortised Cost
Derivative financial instruments	16	FVPL	96	96	FVPL
Due from controlled entities	17	Amortised Cost	77,922	57,796	Amortised Cost
Investment in controlled entities	19	N/A	2,755	2,755	N/A
Deferred tax assets	21	N/A	2,340	3,786	N/A
Non financial assets - other		N/A	10,854	10,854	N/A
Total			**4,147,065**	**4,143,692**	
Liabilities					
Members' deposits	22	Amortised Cost	2,971,226	2,983,192	Amortised Cost
Accrued interest and other payables	23	Amortised Cost	19,599	7,536	Amortised Cost
Derivative financial instruments	16	FVOCI	101	101	FVOCI
Current tax liabilities		N/A	3,418	3,418	N/A
Borrowings	24	Amortised Cost	359,899	359,996	Amortised Cost
Due to controlled entities	17	Amortised Cost	504,594	504,594	Amortised Cost
Provisions	25	N/A	3,982	3,982	N/A
Total			**3,862,819**	**3,862,819**	

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Reconciliation of ECL provision as at 1 July 2018

The transition to new accounting standard AASB 9 Financial Instruments resulted in an increase in ECL provision by $4,694,000 and $4,819,000 for the Group and the Bank respectively.

The following table reconciles 30 June 2018 closing ECL provision calculated in accordance with AASB 139 with the opening ECL provision on financial assets as at 1 July 2018 calculated under AASB 9:

As at 1 July 2018	Consolidated			Police & Nurses Limited		
	30 June 2018 AASB 139 $000	Remeasurement for AASB 9 $000	1 July 18 AASB 9 $000	30 June 2018 AASB 139 $000	Remeasurement for AASB 9 $000	1 July 18 AASB 9 $000
Receivables due from other financial institutions	-	217	217	-	217	217
Other financial assets held at AC	-	1,746	1,746	-	-	-
Loans and advances	4,551	2,731	7,282	4,551	2,731	7,282
Due from controlled entities	-	-	-	-	1,871	1,871
	4,551	**4,694**	**9,245**	**4,551**	**4,819**	**9,370**
Relates to undrawn credit commitments	-	(217)	(217)	-	(217)	(217)
	4,551	**4,477**	**9,028**	**4,551**	**4,602**	**9,153**

The ECL provision for Loans and advances is split into the different stages required by AASB 9 as detailed in table below:

As at 1 July 2018	Consolidated			Police & Nurses Limited		
	30 June 2018 AASB 139 $000	Remeasurement for AASB 9 $000	1 July 18 AASB 9 $000	30 June 2018 AASB 139 $000	Remeasurement for AASB 9 $000	1 July 18 AASB 9 $000
Specific	4,551	-	4,551	4,551	-	4,551
Stage 1 - 12 month ECL	-	1,267	1,267	-	1,267	1,267
Stage 2 - Lifetime ECL	-	612	612	-	612	612
Stage 3 - Lifetime ECL	-	852	852	-	852	852
	4,551	**2,731**	**7,282**	**4,551**	**2,731**	**7,282**
Relates to undrawn credit commitments	-	(217)	(217)	-	(217)	(217)
	4,551	**2,514**	**7,065**	**4,551**	**2,514**	**7,065**

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Changes in accounting policies applied from 1 July 2018

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet when there is an unconditional and legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets in the following measurement categories:

- measured subsequently at amortised cost; or
- measured subsequently at fair value (either through other comprehensive income or through profit or loss).

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using the effective interest method and net of any impairment loss, if:

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

Financial assets measured at fair value

A financial asset shall be measured at fair value through profit and loss unless it is measured at amortised cost or at fair value through other comprehensive income.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income, in which case, gains and losses will never be reclassified to profit or loss, and no impairment may be recognised in net profit or loss. Dividends earned from such investments are recognised in net profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Impact on adoption of new standards and changes in accounting policies (continued)

Derivatives

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 cash flows of hedged items.

The Group uses cash flow hedges to manage exposure to variability in cash flows associated with a highly probable forecasted transaction or a committed transaction. 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 the income statement within other income or other expenses.

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.

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.

Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised costs and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money, and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecast of future economic conditions.

Note 34 provides more detail of how the ECL provision is measured.

Notes to the Financial Statements

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

Specific loan provisions are calculated for loans where objective evidence of impairment is present. Objective evidence of impairment is defined in note 1(c) above. The Group has provided for all loans where there is objective evidence of impairment and security is less than the loan due, except where the loan repayments are secured by lenders mortgage insurance.

Collective loan provisions are calculated based on a forward looking expected credit loss model as outlined in note 1(ab)(ii).

(ii) Carrying value of goodwill

The Group carries its goodwill at fair value less any accumulated impairment loss recognised in profit or loss.

The key assumptions used in the determination of impairment loss and amortisation are set out in note 20.

(iii) Property development

The property development receivable from Pindan Capital Two Rocks is carried at amortised cost. The carrying value is assessed for impairment at each reporting date and amended where there have been changes in the timing of expected future cash flows. These cash flows are estimated based on the expected number of future lot sales and discounted at a rate of equivalent corporate debt.

(iv) Assets and liabilities associated with assets held for sale

Non current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, assets and associated liabilities are remeasured in accordance with the Group's policies. Thereafter the assets are generally measured at the lower of their carrying amount or fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses are recognised in profit or loss. Details of assets and liabilities associated with assets held for sale are set out in note 9.

(v) Estimated fair value of financial assets and liabilities

Interest rate swaps are considered a level 2 observable input valuation. The fair value is calculated as the present value of the future cash flows based on observable yield curves. For interest rate swaps qualifying as cash flow hedges, the effective portion of the gains and losses is posted to the cash flow hedge reserve within other comprehensive income and the ineffective portion is posted directly to the income statement. Gains and losses as a result of interest rate swaps that do not qualify as cash flow hedges are posted immediately to the income statement.

The fair value of unlisted equity securities is determined using level 3 unobservable valuation techniques that consider the financials of the company, historical share transactions and reference the performance to other similar investments.

(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

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					
Year Ended 30 June 2019	**2019**			2018		
Interest revenue and interest expense	**Average balance**	**Interest**	**Average interest rate**	Average balance	Interest	Average interest rate
	$000	**$000**	**%**	$000	$000	%
Interest-earning assets						
Deposits with other banks/ADIs (i)	**548,847**	**17,072**	**3.11%**	516,069	13,369	2.59%
Loans and advances (ii)	**3,616,661**	**144,306**	**3.99%**	3,468,165	140,369	4.05%
	4,165,508	**161,378**	**3.87%**	3,984,234	153,738	3.86%
Interest-bearing liabilities						
Members' deposits (ii) (iii)	**2,873,557**	**64,800**	**2.26%**	2,714,741	60,560	2.23%
Borrowings from other banks/ADIs (i)	**1,004,361**	**21,088**	**2.10%**	1,023,170	20,820	2.03%
	3,877,918	**85,888**	**2.21%**	3,737,911	81,380	2.18%

	2019	2018
Analysis of net interest income		
Net interest income	**75,490**	72,358
Average interest-earning assets	**4,165,508**	3,984,234
Net interest margin (iv)	**1.81%**	1.82%
Spread (v)	**1.66%**	1.68%

The fee income and expenses associated with loan origination have been recognised as part of net interest income.

(i) Authorised Deposit Taking Institutions

(ii) Interest accruing on mortgage offset accounts is presented on a net basis within interest revenue, according to the Group's revenue recognition policy.

(iii) In this note, Members' deposits exclude wholesale deposits.

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

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

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019 $000	2018* $000	2019 $000	2018* $000
4 CREDIT IMPAIRMENT LOSS				
Receivables due from other financial institutions	3	-	3	-
Other financial assets held at AC	2,000	-	-	-
Loans and advances	1,491	3,287	1,491	3,287
Due from controlled entities	-	-	1,952	-
Undrawn credit commitments	61	-	61	-
	3,555	3,287	3,507	3,287
CREDIT IMPAIRMENT LOSS BY STAGES				
Specific	3,077	3,287	3,029	3,287
Collective stage 1	(48)	-	(48)	-
Collective stage 2	318	-	318	-
Collective stage 3	208	-	208	-
	3,555	3,287	3,507	3,287
OF WHICH RELATES TO LOANS AND ADVANCES				
Specific	1,077	3,287	1,077	3,287
Collective stage 1	(51)	-	(51)	-
Collective stage 2	318	-	318	-
Collective stage 3	208	-	208	-
	1,552	3,287	1,552	3,287
Undrawn credit commitments	(61)	-	(61)	-
	1,491	3,287	1,491	3,287

* Prior year specific provision was calculated under AASB 139.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
5 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**4,564**	7,944	**4,142**	4,271
Deferred tax	**(129)**	(3,164)	**(20)**	538
Under/(over) provided for current tax in prior years	**103**	(100)	**328**	(14)
Income tax expense	**4,538**	4,680	**4,450**	4,795
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease in deferred tax assets (note 21)	**28**	1,672	**9**	702
Decrease in deferred tax liabilities (note 26)	**(157)**	(4,836)	**(29)**	(164)
	(129)	(3,164)	**(20)**	538
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**14,907**	16,783	**14,137**	16,957
Prima facie income tax calculated at 30% (2018: 30%)	**4,472**	5,035	**4,241**	5,087
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	**32**	33	**32**	29
Tax offset for franked dividends	**(55)**	(103)	**(36)**	(103)
Intragroup dividends	**-**	-	**(103)**	(293)
Other	**(14)**	-	**(12)**	-
	4,435	4,965	**4,122**	4,720
Prior year losses recouped	**-**	30	**-**	-
(Over)/under provision in prior year, relating to:				
- Adjustment relating to subsidiary	**213**	-	**213**	-
- Other	**(110)**	(315)	**115**	75
Income tax expense	**4,538**	4,680	**4,450**	4,795
(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)/charged directly to equity (note 21)	**(109)**	94	**(109)**	94
(d) Franking credits				
Franking credits based on a tax rate of 30%	**93,516**	85,811	**93,341**	85,616

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.

Notes to the Financial Statements

5 INCOME TAX EXPENSE (continued)

(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(g). 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 17).

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
6 CASH AND CASH EQUIVALENTS				
Cash on hand	**1,401**	1,243	**1,401**	1,243
Cash and deposits at call with banks	**80,339**	129,876	**46,197**	81,497
Cash and deposits at call with other ADIs	**9,629**	10,125	**9,629**	10,125
	91,369	141,244	**57,227**	92,865

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
7 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest-earning deposits - banks	**390,725**	343,113	**390,725**	343,113
Interest-earning deposits - other ADIs	**47,169**	54,859	**47,169**	54,859
	437,894	397,972	**437,894**	397,972
Expected credit loss provision	**(220)**	-	**(220)**	-
	437,674	397,972	**437,674**	397,972

The majority of the above amounts are expected to be recovered less than one year after the balance sheet date.

The ECL provision of $220,000 (2018: Nil) belongs to stage 1 collective provision – 12 months ECL and remained at the same stage during the financial year.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018*	**2019**	2018*
	$000	$000	**$000**	$000
8 FINANCIAL ASSETS HELD AT FVOCI				
Investment in Cuscal (a)	**6,498**	-	**6,498**	-
Investment in other	**64**	-	**64**	-
	6,562	-	**6,562**	-

* Previously classified as available for sale financial assets.

(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 is not publicly available. The Bank has determined the fair value of its shares in Cuscal using level 3 unobservable fair value techniques based on the latest audited financial statements, dividend yields of similar investments and recent share transactions (note 1(o)).

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
9 ASSETS HELD FOR SALE				
Land blocks held for sale	**618**	1,234	**-**	-
	618	1,234	**-**	-

This asset value has been determined at the lower of carrying amount and fair value less costs to sell. Assets held for sale are not depreciated or amortised while they are classified for sale.

During the financial year ended 30 June 2018, the joint venture at The Enclave Eagle Bay was dissolved and the Group reclassified the remaining lots to assets held for sale. During the current financial year, one vacant lot was sold. The other still remains on the balance sheet and the Group is actively engaged in the sale process.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
10 OTHER ASSETS				
Interest receivable	**-**	106	**-**	106
Prepayments	**2,441**	3,023	**2,388**	3,014
Member transaction clearing	**-**	641	**-**	604
Land and property development debtors	**-**	29,296	**-**	-
Other receivables	**2,924**	1,172	**1,945**	722
	5,365	34,238	**4,333**	4,446

The amounts in the above table were reclassified on implementation of AASB 9 to Other financial assets held at AC, Other financial assets held at FVPL and the non-financial assets remained as Other assets.

Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
11 OTHER FINANCIAL ASSETS HELD AT AC				
Land and property development	**27,395**	-	**-**	-
Other financial receivables	**952**	-	**367**	-
	28,347	-	**367**	-
Expected credit loss provision	**(3,746)**	-	**-**	-
	24,601	-	**367**	-
Expected credit loss provision				
Opening balance	**-**	-	**-**	-
Impact of transition to AASB 9	**1,746**	-	**-**	-
Expected credit loss provision provided for during the year	**2,000**	-	**-**	-
Closing balance	**3,746**	-	**-**	-

Land and property development includes $27,395,000 (2018: $27,800,000) receivable from Pindan Capital Two Rocks Pty Ltd as a trustee for the Pindan Capital Two Rocks Trust. Subsequent to the balance sheet date, we have called for the full settlement of the outstanding non performing loan pertaining to the property development. This debtor facility is supported by a registered mortgage over the property development as well as additional guarantee security and is based on a commercial interest rate.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
12 OTHER FINANCIAL ASSETS HELD AT FVPL				
Investment in securitisation notes	**-**	-	**15,916**	-
Investment in Land and property development	**1,131**	-	**-**	-
	1,131	-	**15,916**	-

The Bank holds Investments in securitisation notes, which are debt securities issued by securitisation trusts that are related entities. Prior to the implementation of AASB 9, this was reported under note 17 Due from/to controlled entities.

The Group holds an Investment in Harrisdale, which develops land and property. Prior to the implementation of AASB 9 this amount was reported under note 10 Other assets within Other receivables.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
13 AVAILABLE FOR SALE FINANCIAL ASSETS				
Investment in Cuscal (a)	-	6,498	-	6,498
Investment in Pindan Capital Two Rocks Trust (b)	-	2,000	-	-
Investment in Super Myway Pty Ltd	-	64	-	64
Investment in “Heron Park” at Harrisdale	-	63	-	-
	-	8,625	-	6,562

In compliance with AASB 9, investments previously classified as Available for sale financial assets were reclassified as Other financial assets held at FVOCI or Other financial assets held at FVPL.

(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 is not publicly available. The Bank has determined the fair value of its shares in Cuscal using level 3 unobservable fair value techniques based on the latest audited financial statements, dividend yields of similar investments and recent share transactions (note 1(o)).

(b) Pindan Capital Two Rock Trust

P&N Landreach Pty Ltd’s equity ownership of 2,000,000 units in the Pindan Capital Two Rocks Trust undertaking a development at Two Rocks was reflected in the Available for sale assets.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
14 LOANS AND ADVANCES				
Home loans	**3,530,123**	3,390,176	**3,530,123**	3,390,176
Secured overdrafts	**32,552**	37,162	**32,552**	37,162
Personal loans	**34,088**	37,926	**34,088**	37,926
Overdraft & credit cards	**36,749**	35,283	**36,749**	35,283
Retail loans and advances	**3,633,512**	3,500,547	**3,633,512**	3,500,547
Commercial & property finance	**42,988**	51,675	**42,988**	51,675
Gross loans and advances	**3,676,500**	3,552,222	**3,676,500**	3,552,222
Effective interest rate adjustment	**4,327**	3,582	**4,327**	3,582
Expected credit loss provision (a)	**(6,112)**	(4,551)	**(6,112)**	(4,551)
Net loans and advances	**3,674,715**	3,551,253	**3,674,715**	3,551,253

- Home loans are secured by registered mortgages over residential properties.
- Secured overdrafts are revolving lines of credit secured by residential properties.
- Commercial and property finance loans are secured by registered mortgages over commercial or non-residential properties.
- Personal loans are provided on a secured or unsecured basis, and are predominantly secured by motor vehicles.
- Overdraft facilities and credit cards are revolving lines of credit and are unsecured.

All housing loans are secured by registered mortgages.

In 2019 the provisions were calculated in accordance with forward looking methodology outlined in AASB 9 whereas in 2018 only specific provisions were calculated pursuant to AASB 139.

Notes to the Financial Statements

14 LOANS AND ADVANCES (continued)

The maturity tables are based on contractual terms.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Time to maturity				
Not later than one year	**109,295**	117,692	**109,295**	117,692
One year to five years	**45,437**	55,944	**45,437**	55,944
Over five years	**3,521,768**	3,378,586	**3,521,768**	3,378,586
	3,676,500	3,552,222	**3,676,500**	3,552,222

The Bank securitises mortgage loans via securitisation programs which it manages and from which it derives management fee income.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Securitised Loans under management				
Pinnacle Series Trust 2010-T1	**-**	30,821	**-**	30,821
Pinnacle Series Trust 2013-T1	**50,380**	61,752	**50,380**	61,752
Pinnacle Series Trust 2014-SST	**813,761**	807,587	**813,761**	807,587
Pinnacle RMBS Warehouse Trust	**112,393**	131,426	**112,393**	131,426
Pinnacle Series Trust 2017-T1	**228,918**	280,625	**228,918**	280,625
	1,205,452	1,312,211	**1,205,452**	1,312,211

All trusts are consolidated as part of the Group (note 19). In accordance with AASB 9 the mortgages securitised in the trusts remain on the balance sheet of the Bank.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
(a) Loan expected credit loss provision by stage				
Specific	**2,935**	4,551	**2,935**	4,551
Collective stage 1	**1,577**	-	**1,577**	-
Collective stage 2	**680**	-	**680**	-
Collective stage 3	**920**	-	**920**	-
	6,112	4,551	**6,112**	4,551
Undrawn credit commitments	**(278)**	-	**(278)**	-
	5,834	4,551	**5,834**	4,551
(b) Loan expected credit loss provision movement				
Opening balance	**4,551**	6,630	**4,551**	6,630
Impact of transition to AASB 9	**2,514**	-	**2,514**	-
Bad debts previously provided for written off	**(2,722)**	(5,366)	**(2,722)**	(5,366)
Bad and doubtful debts provided for during the year	**1,491**	3,287	**1,491**	3,287
Closing balance	**5,834**	4,551	**5,834**	4,551
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Home loans	**965**	1,379	**965**	1,379
Commercial & property finance	**875**	2,406	**875**	2,406
Personal loans	**401**	934	**401**	934
Overdraft & credit cards	**481**	647	**481**	647
	2,722	5,366	**2,722**	5,366

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION

The table below represents the reconciliation from the opening balance to the closing balance of ECL provision.

Year Ended 30 June 2019 — **Consolidated**

	Receivables due from financial institutions $000	Other financial assets held at AC $000	Loans and advances $000	Due from controlled entities $000	Undrawn credit commitments $000	Total $000
Balance as at 30 June 2018	**-**	**-**	**4,551**	**-**	**-**	**4,551**
Impact of transition to AASB 9	217	1,746	2,514	-	217	4,694
Balance as at 1 July 2018	**217**	**1,746**	**7,065**	**-**	**217**	**9,245**
Impairment expense/(reversal)	3	2,000	1,491	-	61	3,555
Amounts written off, previously provided for	-	-	(2,722)	-	-	(2,722)
Balance as at 30 June 2019	**220**	**3,746**	**5,834**	**-**	**278**	**10,078**

Year Ended 30 June 2019 — **Police & Nurses Limited**

	Receivables due from financial institutions $000	Other financial assets held at AC $000	Loans and advances $000	Due from controlled entities $000	Undrawn credit commitments $000	Total $000
Balance as at 30 June 2018	**-**	**-**	**4,551**	**-**	**-**	**4,551**
Impact of transition to AASB 9	217	-	2,514	1,871	217	4,819
Balance as at 1 July 2018	**217**	**-**	**7,065**	**1,871**	**217**	**9,370**
Impairment expense/(reversal)	3	-	1,491	1,952	61	3,507
Amounts written off, previously provided for	-	-	(2,722)	-	-	(2,722)
Balance as at 30 June 2019	**220**	**-**	**5,834**	**3,823**	**278**	**10,155**

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2019	Consolidated				
	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit $000	Stage 3 Collective provision Lifetime ECL credit $000	Specific provision Lifetime ECL $000	Total $000
(a) LOAN AND ADVANCES					
Balance as at 30 June 2018	-	-	-	**4,551**	**4,551**
Restated for adoption of new accounting standards	1,267	612	852	4,551	7,282
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	454	(269)	(163)	(22)	-
Transferred to Lifetime ECL - not credit impaired	(58)	113	(46)	(9)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(26)	(81)	107	-	-
Transferred to Lifetime ECL - credit impaired - specific provision	(9)	(13)	(38)	60	-
Bad debts written off	-	-	-	(2,722)	(2,722)
Charge to income statement from continuing operations	(51)	318	208	1,077	1,552
Balance at 30 June 2019	**1,577**	**680**	**920**	**2,935**	**6,112**

There has been an underlying increase in the Retail and Commercial collective provisions during the financial year 2019 for Stages 1 to 3 which is in line with the growth in the balance sheet combined with a continued tough economic environment. Specific provisions improved through the year due to bad debts written off of $2,722,000. New specific provisions of $1,077,000 were raised during the year reflective of the tough economic environment.

Year Ended 30 June 2019	Consolidated				
	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Specific provision Lifetime ECL $000	Total $000
(b) OTHER FINANCIAL ASSETS HELD AT AC					
Balance as at 30 June 2018	-	-	-	-	-
Restated for adoption of new accounting standards	**1,746**	-	-	-	**1,746**
Changes due to financial assets recognised in the opening balances that have:					
Transferred to Lifetime ECL - credit impaired - specific provision	**(1,746)**	-	-	**1,746**	-
Charge to income statement from continuing operations	-	-	-	**2,000**	**2,000**
Balance at 30 June 2019	-	-	-	**3,746**	**3,746**

Other financial assets held at AC includes a loan to Pindan Two Rocks Pty Ltd. The full loan has become due and payable. A total specific provision of $3,746,000 has been raised against this loan which includes a $1,746,000 reclassification from ECL stage 1 provision.

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2019 — **Police & Nurses Limited**

	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit $000	Stage 3 Collective provision Lifetime ECL credit $000	Specific provision Lifetime ECL $000	Total $000
(c) LOAN AND ADVANCES					
Balance as at 30 June 2018	-	-	-	**4,551**	**4,551**
Restated for adoption of new accounting standards	1,267	612	852	4,551	7,282
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	454	(269)	(163)	(22)	-
Transferred to Lifetime ECL - not credit impaired	(58)	113	(46)	(9)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(26)	(81)	107	-	-
Transferred to Lifetime ECL - credit impaired - specific provision	(9)	(13)	(38)	60	-
Bad debts written off	-	-	-	(2,722)	(2,722)
Charge to income statement from continuing operations	(51)	318	208	1,077	1,552
Balance at 30 June 2019	**1,577**	**680**	**920**	**2,935**	**6,112**

There has been an underlying increase in the Retail and Commercial collective provisions during the financial year 2019 for Stages 1 to 3 which is in line with the growth in the balance sheet combined with a continued tough economic environment. Specific provisions improved through the year due to bad debts written off of $2,722,000. New specific provisions of $1,077,000 were raised during the year reflective of the tough economic environment.

Year Ended 30 June 2019 — **Police & Nurses Limited**

	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Specific provision Lifetime ECL $000	Total $000
(d) DUE FROM/TO CONTROLLED ENTITIES					
Balance as at 30 June 2018	-	-	-	-	-
Restated for adoption of new accounting standards	**1,871**	-	-	-	**1,871**
Changes due to financial assets recognised in the opening balances that have:					
Transferred to Lifetime ECL - credit impaired - specific provision	**(1,823)**	-	-	**1,823**	-
Charge to income statement from continuing operations	**(48)**	-	-	**2,000**	**1,952**
Balance at 30 June 2019	-	-	-	**3,823**	**3,823**

Due from/to controlled entities includes intercompany receivable from the Bank to P&N Landreach Pty Ltd. A total specific provision of $3,823,000 has been raised against this intercompany receivable which includes a $1,871,000 reclassification from ECL stage 1 provision.

Notes to the Financial Statements

16 DERIVATIVE FINANCIAL INSTRUMENTS

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019 Fair value $000	2018 Fair value $000	**2019 Fair value $000**	2018 Fair value $000
Fair value				
Derivative financial assets				
Interest rate swaps - fair value through profit and loss - assets	**94**	112	**94**	96
	94	112	**94**	96
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**103**	128	**-**	23
Interest rate swaps - held as cash flow hedges - liabilities	**449**	78	**449**	78
	552	206	**449**	101

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019 Notional Amount $000	2018 Notional Amount $000	**2019 Notional Amount $000**	2018 Notional Amount $000
Notional amount				
Derivative financial assets				
Interest rate swaps - fair value through profit and loss - assets	**14,696**	32,937	**14,696**	14,286
	14,696	32,937	**14,696**	14,286
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**14,696**	32,937	**-**	18,650
Interest rate swaps - held as cash flow hedges - liabilities	**37,000**	45,000	**37,000**	45,000
	51,696	77,937	**37,000**	63,650

(a) Terms and conditions

The Group pays fixed interest on swaps with a notional amount of $51,696,000 (2018: $77,937,000), on which it pays 1.80% to 3.23% (2018: 1.80% to 3.72%) interest and receives 1.20% to 1.75% (2018: 1.92% to 2.11%) interest calculated at a variable rate on the notional amount. At balance sheet date, P&N Bank pays fixed interest on swaps with a notional amount of $37,000,000 (2018: $45,000,000), on which it pays 1.95% to 3.23% (2018: 1.99% to 3.72%) interest and receives 1.20% to 1.75% (2018: 1.92% to 2.11%) interest calculated at a variable rate on the notional amount.

The Group pays variable interest on swaps with a notional amount of $14,696,000 (2018: $32,937,000), on which it pays 1.26% (2018: 1.96%) interest and receives 1.73% to 2.46% (2018: 1.73% to 2.46%) interest calculated on a fixed rate on the notional amount. At balance sheet date, P&N Bank pays variable interest on swaps with a notional amount of $14,696,000 (2018: $32,937,000), on which it pays 1.26% (2018: 1.96%) interest and receives 1.73% to 2.46% (2018: 1.73% to 2.46%) interest calculated on a fixed rate on the notional amount.

Interest rate swaps are used by the Group to manage exposure to interest rate risk. Where these swaps qualify for cash flow hedge accounting, the effective portion of any unrealised profit or loss is deferred to equity in the cash flow hedge reserve within other comprehensive income. Where interest rate swaps do not qualify for hedge accounting, the profit or loss is recognised directly to the income statement.

Notes to the Financial Statements

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Terms and conditions (continued)

Amounts accumulated in other comprehensive income in respect of cash flow hedges are recycled to the income statement when the hedged forecast transaction occurs. Underlying cash flows from cash flow hedges are discounted to calculate deferred gains and losses which are expected to occur in the following periods:

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Maturity period				
Less than one year	**240**	31	**240**	31
More than one year but less than two years	**127**	26	**127**	26
More than two years but less than five years	**54**	-	**54**	-
Net deferred losses	**421**	57	**421**	57

(b) Fair value hierarchy

All of the Bank's interest rate swaps are classified using the fair value hierarchy level 2 observable inputs valuation techniques (note 1(o)). The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
17 DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	-	-	**29,749**	32,254
Deferred securitisation receivable	-	-	**21,239**	45,668
	-	-	**50,988**	77,922
Expected credit loss provision	-	-	**(3,823)**	-
	-	-	**47,165**	77,922
Expected credit loss provision				
Opening balance	-	-	-	-
Impact of transition to AASB 9	-	-	**1,871**	-
ECL provision provided for during the year	-	-	**1,952**	-
Closing balance	-	-	**3,823**	-
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	-	-	**391,761**	504,594
	-	-	**391,761**	504,594

Prior to the implementation of AASB 9 Investments in notes held in related securitisation trust were recorded in Deferred securitisation receivable. On 1 July 2018, they have been reclassified to Other Financial Assets held at FVPL note 12.

As at 30 June 2019, amounts due to and from the Bank's self-securitisation facility (Pinnacle Series Trust 2014-SST) are presented net within deferred securitisation receivables as the Group has the right and intention to settle these nets. The gross amounts due to Pinnacle Series Trust 2014-SST were $813,761,000 (2018: $805,587,000) and the gross amounts from Pinnacle Series Trust 2014-SST were $835,000,000 (2018: $835,000,000).

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

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
18 PROPERTY AND EQUIPMENT				
Leasehold improvements				
At cost	**14,981**	10,705	**14,981**	10,705
Accumulated depreciation	**(5,275)**	(7,418)	**(5,275)**	(7,418)
	9,706	3,287	**9,706**	3,287
Equipment				
At cost	**7,352**	5,868	**7,206**	5,699
Accumulated depreciation	**(2,032)**	(4,199)	**(1,931)**	(4,071)
	5,320	1,669	**5,275**	1,628
Total property and equipment	**15,026**	4,956	**14,981**	4,915

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

Year Ended 30 June 2019	Consolidated			Police & Nurses Limited		
	Leasehold improvements	Equipment	Total	Leasehold improvements	Equipment	Total
	$000	$000	$000	$000	$000	$000
Carrying amount at 1 July 2017	4,392	2,534	6,926	4,392	2,475	6,867
Additions	631	152	783	631	146	777
Disposals	-	(118)	(118)	-	(118)	(118)
Depreciation expense	(1,736)	(899)	(2,635)	(1,736)	(875)	(2,611)
Carrying amount at 30 June 2018	3,287	1,669	4,956	3,287	1,628	4,915
Carrying amount at 1 July 2018	**3,287**	**1,669**	**4,956**	**3,287**	**1,628**	**4,915**
Additions	**8,393**	**4,672**	**13,021**	**8,349**	**4,633**	**12,982**
Disposals	**(171)**	**(103)**	**(274)**	**(171)**	**(96)**	**(267)**
Depreciation expense	**(1,759)**	**(918)**	**(2,677)**	**(1,759)**	**(890)**	**(2,649)**
Carrying amount at 30 June 2019	**9,706**	**5,320**	**15,026**	**9,706**	**5,275**	**14,981**

Notes to the Financial Statements

19 INVESTMENTS IN CONTROLLED ENTITIES

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

Year Ended 30 June 2019	Consolidated			
	Interests in Controlled Entities		Value of Investment in Controlled Entities	
			Held by the Bank	Held by the Bank
	2019	2018	**2019**	2018
	%	%	**$**	$
Members Holding Company Pty Ltd	**100**	100	**73,773**	73,773
P&N Landreach Pty Ltd	**100**	100	**2,000,010**	10
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
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	**100**	100	**-**	-
Pinnacle Series Trust 2014 - SST	**100**	100	**-**	-
Pinnacle Series Trust 2017 - T1	**100**	100	**-**	-
			4,755,363	2,755,363

The Bank provided capital support in the term of debt forgiveness to P&N Landreach Pty Ltd for the amount of $2,000,000 in 2019 financial year (2018: Nil).

Pinnacle Series Trust 2017 - T1

The Bank exercised the clean up provision for the trust as outstanding loans fell below 10% of the original loans sold to the trust at origination.

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

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
20 INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
	1,572	1,572	**-**	-
Computer Software (ii)				
At cost	**14,640**	14,769	**14,640**	14,769
Accumulated amortisation	**(8,982)**	(8,830)	**(8,982)**	(8,830)
	5,658	5,939	**5,658**	5,939
Total intangible assets	**7,230**	7,511	**5,658**	5,939
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	**5,939**	6,333	**5,939**	6,333
Additions	**2,083**	2,030	**2,083**	2,030
Amortisation charge *	**(2,364)**	(2,424)	**(2,364)**	(2,424)
Closing carrying amount	**5,658**	5,939	**5,658**	5,939

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

(a) Impairment test 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 which reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd.

The value is calculated by discounting expected future cash flows based on the following assumptions:
(i) cash flow forecasts for the next 5 years;
(ii) discount rate of 13.5% (2018: 13.5%) per annum pre-tax; and
(iii) current prevailing economic conditions

(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

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
21 DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,014**	1,365	**1,014**	1,365
Intangible assets - software	**77**	272	**77**	272
Provisions	**1,287**	1,283	**2,357**	1,195
Depreciation	**72**	177	**61**	157
Accruals	**301**	409	**257**	367
Other	**848**	97	**(322)**	79
	3,599	3,603	**3,444**	3,435
Amounts recognised directly in equity				
Impact of transition to AASB 9	**1,410**	-	**1,446**	-
Cash flow hedges	**126**	17	**126**	17
Other	**(19)**	-	**(17)**	-
	5,116	3,620	**4,999**	3,452
Tax Losses carried forward	**-**	5	**-**	-
Offset from/to deferred tax liabilities (note 26)	**(1,403)**	(1,560)	**(1,083)**	(1,112)
Net deferred tax assets	**3,713**	2,065	**3,916**	2,340
Movements:				
Opening balance	**3,620**	5,386	**3,452**	4,248
Change on transition to AASB 9	**1,410**	-	**1,446**	-
(Charged)/credited to the income statement (note 5)	**(28)**	(1,672)	**(9)**	(702)
Charged to equity (note 5) & (note 27(c))	**109**	(94)	**109**	(94)
Other	**5**	-	**1**	-
Closing balance	**5,116**	3,620	**4,999**	3,452
Unrecognised temporary differences:				
Valuation of financial instruments for which deferred tax assets have not been recognised:	**600**	-	**-**	-
	600	-	**-**	-

P&N Landreach Pty Ltd's equity ownership of 2,000,000 units in the Pindan Capital Two Rocks Trust undertaking a development at Two Rocks was revalued from $2,000,000 to zero during the financial year. Due to uncertainty over the recoverability of associated deferred tax assets, management chose to record this as unrecognised temporary difference.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
22 MEMBERS' DEPOSITS				
Call deposits	**1,229,160**	1,115,233	**1,229,812**	1,115,797
Term deposits	**1,946,403**	1,854,533	**1,946,403**	1,854,533
Withdrawable shares (a)	**898**	896	**898**	896
	3,176,461	2,970,662	**3,177,113**	2,971,226

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 34.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	Number of shares	Number of shares	**Number of shares**	Number of shares
(a) Members' shares				
Number of $10 shares	**86,248**	86,970	**86,248**	86,970
Number of $6 shares	**4,384**	4,499	**4,384**	4,499
Number of $0 shares	**616**	638	**616**	638
Number of $10 on-call shares	**5,223**	-	**5,223**	-
	96,471	92,107	**96,471**	92,107
Movements:				
Opening number of shares	**92,107**	88,192	**92,107**	88,192
New shares issued during the year	**7,531**	7,218	**7,531**	7,218
Resignations during the year	**(3,167)**	(3,303)	**(3,167)**	(3,303)
Closing balance	**96,471**	92,107	**96,471**	92,107

From October 2018, new members were offered on-call shares, meaning the member does not need to submit an upfront $10 fee, however this fee is due and payable on demand.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
23 OTHER PAYABLES				
Accrued interest payable	-	12,063	-	12,063
Other payables	**14,469**	8,214	**14,067**	7,536
	14,469	20,277	**14,067**	19,599

After adoption of AASB 9, accrued interest payable is no longer presented separately and has been combined with deposits in note 22.

Other payables are normally settled within 12 months.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
24 BORROWINGS				
Secured by home loan portfolios	**386,010**	504,676	-	-
Unsecured	**395,413**	359,899	**395,413**	359,899
	781,423	864,575	**395,413**	359,899

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
25 PROVISIONS				
Employee benefits (a)	**4,071**	3,791	**3,814**	3,562
Make good (b)	**-**	420	**-**	420
Other	**-**	66	**-**	-
	4,071	4,277	**3,814**	3,982

(a) Provision for employee benefits

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:

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Within the next 12 months	**3,273**	2,991	**3,059**	2,814
Between one and two years	**138**	283	**138**	260
Later than two years	**660**	517	**617**	488
	4,071	3,791	**3,814**	3,562

The provision for make good includes any make good work which will need to be contractually completed on the expiry of certain leases.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
(b) Provision for make good				
Opening balance	**420**	372	**420**	372
Adjustment to the provision	**(796)**	-	**(796)**	-
Make good provided for during the year	**376**	48	**376**	48
Closing balance	**-**	420	**-**	420

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:

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Less than one year	**-**	420	**-**	420
	-	420	**-**	420

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
26 DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**320**	448	**-**	-
Interest rate swaps	**-**	29	**-**	29
	320	477	**-**	29
Amounts recognised directly in equity				
Financial assets held at FVOCI	**1,083**	1,083	**1,083**	1,083
	1,403	1,560	**1,083**	1,112
Offset to/from deferred tax assets (note 21)	**(1,403)**	(1,560)	**(1,083)**	(1,112)
Net deferred tax liabilities	**-**	-	**-**	-
Movements:				
Opening balance	**1,560**	6,396	**1,112**	1,276
Credited to the income statement (note 5)	**(157)**	(4,836)	**(29)**	(164)
Closing balance	**1,403**	1,560	**1,083**	1,112

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
27 RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**220,000**	220,000	**220,000**	220,000
Share capital reserve (b)	**884**	855	**884**	855
Cash flow hedge reserve (c)	**(295)**	(40)	**(295)**	(40)
Financial asset held at FVOCI reserve (d)	**527**	2,527	**2,527**	2,527
	221,116	223,342	**223,116**	223,342
Retained earnings				
Balance at beginning of year	**61,884**	49,795	**60,904**	48,774
Impact of transition to AASB 9 (note 1(ab))	**(3,284)**	-	**(3,373)**	-
Adjusted balance at beginning of year	**58,600**	49,795	**57,531**	48,774
Profit for the year	**10,316**	12,121	**9,687**	12,162
Total available for appropriation	**68,916**	61,916	**67,218**	60,936
Amount transferred to share capital reserve (b)	**(29)**	(32)	**(29)**	(32)
Balance at end of year	**68,887**	61,884	**67,189**	60,904

(a) 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. There was no movement in general reserve for the year.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
(b) Share capital reserve				
Balance at beginning of year	**855**	823	**855**	823
Transfer from retained profits	**29**	32	**29**	32
Balance at end of year	**884**	855	**884**	855

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.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
(c) Cash flow hedge reserve				
Balance at beginning of year	**(40)**	(259)	**(40)**	(259)
New cash flow hedges	**(334)**	(6)	**(334)**	(6)
Revaluation of cash flow hedge instruments	**(59)**	201	**(59)**	201
Cash flow hedges recycled to income statement	**24**	117	**24**	117
Ineffective gains recognised in the income statement	**5**	1	**5**	1
Income tax on revaluation (note 21)	**109**	(94)	**109**	(94)
Changes in the fair value of cash flow hedges, net of tax	**(255)**	219	**(255)**	219
Balance at end of year	**(295)**	(40)	**(295)**	(40)

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(n). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
27 RESERVES AND RETAINED EARNINGS (continued)				
(d) Financial asset held at FVOCI reserve				
Balance at beginning of year	**2,527**	2,527	**2,527**	2,527
Change in fair value (note 8)	**(2,000)**	-	**-**	-
Balance at end of year	**527**	2,527	**2,527**	2,527

The reserve is used to record gains and losses resulting from movement in the fair value of Other financial assets held at FVOCI (note 8).

P&N Landreach Pty Ltd's equity ownership of 2,000,000 units in the Pindan Capital Two Rocks Trust undertaking a development at Two Rocks was revalued from $2,000,000 to zero during the financial year.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
28 NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the operating profit after tax to the net cash flows from operations				
Profit after income tax	**10,369**	12,103	**9,687**	12,162
Depreciation and amortisation	**5,041**	5,059	**5,013**	5,035
Credit impairment loss	**3,555**	3,287	**3,507**	3,287
Bad debts recovered	**(364)**	(455)	**(364)**	(455)
Loss on disposal of property and equipment	**367**	1	**381**	1
Dividend received	**(287)**	(713)	**(120)**	(241)
(Decrease)/increase in provisions	**(206)**	463	**(169)**	337
Decrease/(increase) in investment	**-**	-	**(2,000)**	-
(Decrease)/increase in loans	**(129,939)**	(179,237)	**(129,979)**	(179,237)
(Decrease)/increase in other financial institutions	**(83,153)**	28,832	**35,514**	4,611
Decrease in loan interest receivable	**106**	150	**106**	150
(Decrease)/increase in receivables due from other financial institutions	**(39,702)**	(3,204)	**(39,702)**	(3,204)
Decrease/(increase) in other receivables	**2,162**	205	**(1,223)**	821
Increase/(decrease) in member deposits	**206,090**	133,456	**206,123**	132,388
(Decrease)/increase in member interest payable	**(12,063)**	(1,242)	**(12,063)**	(1,242)
Increase/(decrease) in interest rate swaps	**16**	(25)	**2**	222
Increase/(decrease) in accrued expenses and other payables	**6,319**	4,333	**7,798**	501
(Decrease)/increase in current tax liabilities	**(2,921)**	3,052	**(2,977)**	2,981
(Increase)/decrease in deferred tax asset	**(1,529)**	(2,065)	**(1,481)**	525
Decrease in deferred tax liabilities	**(26)**	(1,116)	**-**	-
Decrease/(increase) in sundry debtors and prepayments	**583**	(1,079)	**627**	(1,077)
Net cash (outflow)/inflow from operating activities	**(35,582)**	1,805	**78,680**	(22,435)

The above cash flow statements are presented inclusive of cash flows from assets and associated liabilities held for sale.

Notes to the Financial Statements

28 NOTES TO THE CASH FLOW STATEMENTS (continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the periods presented.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	2019	2018
	$000	$000	$000	$000
Net debt				
Cash and cash equivalents	91,369	141,244	57,227	92,865
Borrowings - repayable within one year (including overdraft)	(494,075)	(508,494)	(395,413)	(359,899)
Borrowings - repayable after one year	(287,348)	(356,081)	-	-
Net Debt	(690,054)	(723,331)	(338,186)	(267,034)
Cash and liquid investments	91,369	141,244	57,227	92,865
Gross debt - fixed interest rates	(395,413)	(359,899)	(395,413)	(359,899)
Gross debt - variable interest rates	(386,010)	(504,676)	-	-
Net Debt	(690,054)	(723,331)	(338,186)	(267,034)

	Other assets		Liabilities from financing activities		
Year Ended 30 June 2019	Cash	Liquid Investments	Borrowings due < 1 year	Borrowings due > 1 year	Total
	$000	$000	$000	$000	$000
Consolidated					
Net debt as at 1 July 2018	141,244	-	(508,494)	(356,081)	(723,331)
Cash flows	(49,875)	-	14,419	68,733	33,277
Net debt as at 30 June 2019	91,369	-	(494,075)	(287,348)	(690,054)
Police & Nurses Limited					
Net debt as at 1 July 2018	92,865	-	(359,899)	-	(267,034)
Cash flows	(35,638)	-	(35,514)	-	(71,152)
Net debt as at 30 June 2019	57,227	-	(395,413)	-	(338,186)

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
29 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	**1,281**	1,747	**1,281**	1,747
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
- not later than one year	**3,882**	5,908	**3,882**	5,908
- later than one year and not later than five years	**13,024**	5,428	**13,024**	5,428
- later than five years	**12,843**	44	**12,843**	44
Aggregate lease expenditure contracted for at balance sheet date	**29,749**	11,380	**29,749**	11,380
(c) Variable rental outgoings				
- not later than one year	**1,054**	-	**1,054**	-
- later than one year and not later than five years	**3,470**	-	**3,470**	-
- later than five years	**3,605**	-	**3,605**	-
Aggregate contractual obligation for future variable outgoings - not recognised as a liability	**8,129**	-	**8,129**	-

Significant leasing arrangements

As at 30 June 2018, the Bank had a leasing arrangement in place for its head office at 130 Stirling Street, Perth. The lease expired on 4 June 2019, with no right of renewal.

As at 30 June 2019, the Bank has a leasing arrangement in place for its new head office at 556 Wellington Street, Perth. The lease expires on 30 November 2029, with one option of renewal for a further five (5) year term.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
30 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
Credit related commitments approved but undrawn loans and credit limits	**358,855**	355,574	**358,855**	355,574

The Bank has significant service contracts with Cuscal Limited. This entity provides the Bank with rights to the VISA card systems in Australia and provides settlement services with other financial institutions for ATM and VISA card transactions, BPay, cheque processing, NPP and direct entry transactions.

The Bank has entered the following financial arrangements with Cuscal.

- overdraft of $3,000,000 (unused as at 30 June 2019).
- lodged a settlement security deposit of $21,400,000 under the Standard Terms and Conditions.
- lodged an overdraft security deposit of $3,000,000 under the Standard Terms and Conditions.

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$	$	**$**	$
31 KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**3,351,144**	2,750,660	**3,351,144**	2,750,660
Short-term employee benefits	**3,109,658**	2,539,946	**3,109,658**	2,539,946
Post-employment benefits	**241,486**	197,729	**241,486**	197,729
Termination benefits	**-**	12,985	**-**	12,985
	3,351,144	2,750,660	**3,351,144**	2,750,660

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.

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.

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 0.31% is offered. As employees of the Bank, key management personnel that are not Directors can access these discounts. 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.

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

Year Ended 30 June 2019	Police & Nurses Limited	
	2019	2018
	$	$
Loans outstanding to key management personnel and their related entities:		
Total loans	**7,263,148**	4,596,816
Of which, loans under normal member terms and conditions	**5,271,152**	2,543,704
Loan advances	**3,579,418**	227,930
Loan repayments	**1,104,048**	669,533
Interest on loans	**191,105**	130,538
Loans outstanding to key management personnel:		
Total discounted loans	**1,991,997**	2,053,113
Of which, unsecured loan balance	**(258)**	686
Loan advances	**348,484**	209,339
Loan repayments	**474,922**	319,326
Interest on loans	**65,247**	56,327
Outstanding deposits held by key management personnel and their related entities:		
Balance of deposits	**4,480,621**	3,846,982
Additional deposits	**7,926,011**	3,418,693
Withdrawals	**7,407,295**	3,312,311
Interest on deposits	**74,782**	49,983

Notes to the Financial Statements

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
32 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	**264**	186	**264**	186
- other assurance services	**187**	132	**125**	88
	451	318	**389**	274
Other auditors				
- statutory financial reports audit services	**15**	11	**-**	-
	466	329	**389**	274
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
- taxation advice	**93**	66	**93**	66
- consulting	**-**	24	**-**	24
	93	90	**93**	90
Total auditor's remuneration	**559**	419	**482**	364

33 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 Group, with cash transactions being undertaken on behalf of the subsidiaries and adjusted for through amounts payable/receivable to/from the Bank. All intercompany balances, except for balances with securitisation trusts and with P&N Landreach Pty Ltd, are non-interest bearing. Some subsidiaries maintain separate deposit accounts with the Bank under normal commercial terms.

The Bank holds Investments in Securitisations which are issued by related securitisation trusts. These are shown in note 12. Other transactions with related entities are recorded in note 17.

The Bank transacted with its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in note 5.

Year Ended 30 June 2019	Police & Nurses Limited	
	2019	2018
	$000	$000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the Group:		
Interest revenue	**27,602**	26,417
Interest expense	**45,132**	43,555
Securitisation service fee revenue	**4,747**	5,232
Dividend revenue	**344**	976
Other income	**541**	525
Aggregate amounts receivable from entities in the Group at balance sheet date	**47,165**	77,922
Aggregate amounts payable to entities in the Group at balance sheet date	**391,761**	504,594

Notes to the Financial Statements

34 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 Audit 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 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 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 monthly basis;
- limits in relation to VaR and market risk exposures;
- independent duration and gap analysis; and
- independent hedging review and recommendations.

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

34 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies (continued)

Interest rate sensitivity analysis

The Bank analyses interest rate sensitivity on both an Earnings at Risk and Cost at Risk basis.

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.

Year Ended 30 June 2019	Consolidated				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2019					
Cash and cash equivalents	**91,369**	**872**	**-**	**(802)**	**-**
Due from financial institutions	**437,674**	**3,687**	**-**	**(3,687)**	**-**
Loans and advances	**3,674,715**	**33,598**	**-**	**(33,598)**	**-**
Derivatives financial instruments	**(458)**	**-**	**413**	**-**	**(422)**
Members' deposits	**(3,176,461)**	**(23,865)**	**-**	**23,865**	**-**
Borrowings	**(781,423)**	**(6,458)**	**-**	**6,458**	**-**
Total increase/(decrease)	**245,416**	**7,834**	**413**	**(7,764)**	**(422)**
2018					
Cash and cash equivalents	141,244	1,400	-	(1,400)	-
Due from financial institutions	397,972	3,983	-	(3,983)	-
Loans and advances	3,551,253	30,888	-	(30,888)	-
Derivatives financial instruments	(94)	-	251	-	(256)
Members' deposits	(2,970,662)	(18,369)	-	18,369	-
Borrowings	(864,575)	(5,047)	-	5,047	-
Total increase/(decrease)	255,138	12,855	251	(12,855)	(256)

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies (continued)

Year Ended 30 June 2019	Police & Nurses Limited				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2019					
Cash and cash equivalents	**57,227**	**543**	**-**	**(473)**	**-**
Due from financial institutions	**437,674**	**3,687**	**-**	**(3,687)**	**-**
Loans and advances	**3,674,715**	**33,598**	**-**	**(33,598)**	**-**
Derivatives financial instruments	**(355)**	**261**	**413**	**(257)**	**(422)**
Members' deposits	**(3,177,113)**	**(23,865)**	**-**	**23,865**	**-**
Borrowings	**(395,413)**	**(3,173)**	**-**	**3,167**	**-**
Due to controlled entities	**(391,761)**	**(3,860)**	**-**	**3,860**	**-**
Total increase/(decrease)	**204,974**	**7,191**	**413**	**(7,123)**	**(422)**
2018					
Cash and cash equivalents	92,865	916	-	(916)	-
Due from financial institutions	397,972	3,983	-	(3,983)	-
Loans and advances	3,551,253	30,888	-	(30,888)	-
Derivatives financial instruments	(5)	272	251	(267)	(256)
Members' deposits	(2,971,226)	(18,369)	-	18,369	-
Borrowings	(359,899)	-	-	-	-
Due to controlled entities	(504,594)	(5,046)	-	5,046	-
Total increase/(decrease)	206,366	12,644	251	(12,639)	(256)

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies (continued)

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Fair value of interest rate swaps				
Fair value estimation - interest rate swaps - asset	**94**	112	**94**	96
Fair value estimation - interest rate swaps - (liability)	**(552)**	(206)	**(449)**	(101)

The fair value of interest rate swaps is calculated as the present value of the estimated cash flows using observable yield curves, and constitutes a level 2 valuation technique.

Hedge accounting disclosures

The Bank is exposed to the variability in expected future cash flows attributable to a portfolio containing fixed rate loans funded by variable rate deposits. To reduce risk, the Bank enters into hedging agreements, primarily interest rate swap contracts, to receive floating and pay fixed interest.

The objective of this hedge is to eliminate the variability of interest rate cash flows over the hedging period.

(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 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 cash and short-term investments in debt securities.

Financing arrangements

Liquidity support is available in the form of $3,000,000 (2018: $3,000,000) of overdraft facility with Cuscal. This facility was undrawn as at 30 June 2019.

Also maintained by the Bank are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of $125,000,000 (2018: $150,000,000), of which $26,338,000 (2018: $31,106,000) was available at 30 June 2019; and
- a self securitisation facility under the Pinnacle Series Trust 2014-SST of $835,000,000 (2018: $835,000,000). The A Notes (AAA rated) of $740,000,000 (2018: $740,000,000) are available as a source of contingent liquidity via repurchase agreements with the RBA if required in the event of a liquidity crisis scenario.

The Group and the Bank had access to the following undrawn borrowing facilities as at 30 June 2019:

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
	$000	$000	**$000**	$000
Floating rate				
Expiring within one year (overdraft facilities)	**3,000**	3,000	**3,000**	3,000
	3,000	3,000	**3,000**	3,000

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk management - objectives and policies (continued)

The below tables represent the maturities of financial liabilities.

Year Ended 30 June 2019 — **Consolidated**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	$000	$000	$000	$000	$000	$000
Maturities of financial liabilities						
2019						
Borrowings	**-**	**276,077**	**217,998**	**51,634**	**235,714**	**781,423**
Members' deposits	**1,229,160**	**1,177,763**	**700,322**	**69,216**	**-**	**3,176,461**
Derivative financial instruments	**-**	**14**	**95**	**443**	**-**	**552**
	1,229,160	**1,453,854**	**918,415**	**121,293**	**235,714**	**3,958,436**
2018						
Borrowings	-	288,807	219,687	63,729	292,352	864,575
Members' deposits	1,115,233	987,030	788,868	79,531	-	2,970,662
Derivative financial instruments	-	10	23	173	-	206
	1,115,233	1,275,847	1,008,578	143,433	292,352	3,835,443

Year Ended 30 June 2019 — **Police & Nurses Limited**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	$000	$000	$000	$000	$000	$000
Maturities of financial liabilities						
2019						
Borrowings	**-**	**276,076**	**119,337**	**-**	**-**	**395,413**
Members' deposits	**1,229,812**	**1,177,763**	**700,322**	**69,216**	**-**	**3,177,113**
Derivative financial instruments	**-**	**14**	**95**	**340**	**-**	**449**
	1,229,812	**1,453,853**	**819,754**	**69,556**	**-**	**3,572,975**
2018						
Borrowings	-	288,807	71,092	-	-	359,899
Members' deposits	1,115,797	987,030	788,868	79,531	-	2,971,226
Derivative financial instruments	-	10	23	68	-	101
	1,115,797	1,275,847	859,983	79,599	-	3,331,226

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(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 through a Credit Committee which meets monthly and reports to the Board, the Board Risk Committee and the Executive Committee.

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 II 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 specific provisions are raised.

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

There have been no material changes to the Bank's credit risk policies from the prior year other than ensuring P&N is operating in alignment with industry standards and regulator expectations.

The loan portfolio of the Bank does not include any loan which represents 10% or more of capital.

ECL model

The Group applies a simplified ECL model to all financial assets accounted for at amortised cost and FVOCI. Under the ECL model the Group calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The credit loss is the sum of these probability-weighted outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Model methodology

The model uses historic loan performance data to calculate product class segmented probability of default percentages (PD) and loss given default percentages (LGD). It then allocates each account in the loan book into one of 3 stages based on credit risk and calculates an account level exposure at default (EAD) and an ECL.

ECL = PD X LGD X EAD

The calculation is broken down into monthly components and discounted back to current date (using the individual account interest rate). For example a 12-month ECL calculation for a stage 1 loan will be calculated for each of the 12 months separately (including expected exposure for each month discounted over a different period) and combined to give the total provision.

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management (continued)

Segmentation

For modelling purposes, the portfolio is divided into the below product class segments:

- Commercial
- Home Loan
- Credit Card
- Personal Loans
- Overdrafts
- Secured Lines of Credit
- Savings Accounts (overdrawn with no overdraft facility)

Staging

Each account is allocated to a stage based on the current credit risk and the ECL calculation varies depending on stage.

Stage 1 - performing. Accounts with no arrears up to 30 days arrears are allocated to stage 1. ECL is a 12-month loss based on the probability of going into default over the next 12 months.

Stage 2 - significant increase in credit risk. Accounts with 30 to 89 days arrears and accounts where the customer is under a hardship arrangement are allocated to stage 2. ECL is calculated as a lifetime loss based on the probability of going into default over the lifetime of the loan.

Stage 3 - impaired. Accounts with greater than 90 days arrears or an event of default has occurred e.g. bankruptcy are allocated to stage 3. ECL is also the lifetime loss, although as the loan is already in default the probability of default is 100%.

Specific provisions - for most stage 3 accounts, P&N holds a specific provision for the full amount (less anything considered recoverable on secured loans). The model does not apply a collective provision on accounts where a specific provision is held.

Probability of Default

The probability of default is based on a roll rate model. It divides loan data into different arrears buckets (such as 30, 60, 90 days past due), and measures the proportion of accounts that “roll” from one bucket to another, which determines the transition probability. Default is defined as 90 days or more in arrears.

Loss Given Default

For Personal Loans, Credit Cards and Overdrafts the Loss Given Default model is calculated across historic data. For Home Loans, Secured Lines of Credit and Commercial the model uses benchmark numbers due to the lack of historic write offs to build a statistically valid model.

Exposure at Default

For revolving credit facilities, the maximum limit available is used for exposure. For term loans the scheduled balance in the month being calculated is used.

Lifetime

The model calculates a behavioural life for loans based on historic data. For Personal Loans and Commercial Loans, where accounts are generally held until maturity the contractual life is used.

Macroeconomic Overlay

To build the model correlations, testing of historic Australian ADI loss data against macroeconomic factors was carried out to determine which are the most appropriate. The model includes 4 macroeconomic factors which are most correlated to losses. Three scenarios for 5-year forecasts for each factor are loaded and these are individually weighted to feed into an adjustment to the overall collective ECL calculation.

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management (continued)

Data and model recalibration

Each month the full loan book with loss data is loaded into the model to increase the amount of data available. The model recalculates all ECL inputs based on the last three years of data, so the model dynamically recalibrates each month.

(i) Financial instruments subject to Impairment by internal credit risk grading

Internal credit grades

the Bank's credit risk grading system is defined below.

- CRG1 – Low Risk

  Retail loan products that are homogeneous in nature, qualify as a standard eligible mortgage or non-standard eligible mortgages under Basel II and have the following characteristics:

  - Qualify for a risk weight of 35%.

  Other non-loan exposures that have been evaluated as low risk have has been booked in this category.

- CRG2 – Sound Risk

  Retail loan products that are homogeneous in nature, qualify as a standard eligible mortgage or non-standard eligible mortgages under Basel II and have the following characteristics:

  - Qualify for a risk weight of 50%.

- CRG3 – Stable Risk

  Retail loan products that are homogeneous in nature, qualify as a standard eligible mortgage or non-standard eligible mortgages under Basel II and have the following characteristics:

  - Qualify for a risk weight of 75% or greater.

- CRG4 – Moderate Risk

  Loan products that are homogeneous in nature and have the following characteristics:

  - Qualify for a 100% risk weight under Basel II.
  - Unsecured, partially secured or secured by forms of security other than registered first mortgage (or second mortgage where priority is granted or the property value is sufficient to cover total debts against that security).

- CRG5 – Acceptable Risk

  Loan products that are homogeneous in nature and have the following characteristics:

  - Qualify for a 100% risk weight under Basel II.
  - Unsecured.
  - Includes revolving credit.

- CRG6 – Managed

  Loans that are being individually managed due to default where a loss is possible.

  The following tables disclose by internal rating grades and ECL impairment stage, the gross carrying amount of assets measured at amortised cost, and also the undrawn credit commitments of the Group and the Bank, that are subject to the impairment requirements of AASB 9. The tables exclude the benefit of collateral.

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Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management (continued)

Year Ended 30 June 2019	Consolidated				
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
Internal rating	**$000**	**$000**	**$000**	**$000**	**$000**
Low (Internal risk grade 1)					
Cash and cash equivalents	91,369	-	-	-	91,369
Receivables due from financial institutions	437,894	-	-	-	437,894
Loans and advances	3,199,402	22,812	11,578	-	3,233,792
Undrawn credit commitments	279,558	8	-	-	279,566
Total Low	**4,008,223**	**22,820**	**11,578**	**-**	**4,042,621**
Sound (Internal risk grade 2)					
Loans and advances	307,382	1,954	4,330	-	313,666
Undrawn credit commitments	25,348	-	-	-	25,348
Total Sound	**332,730**	**1,954**	**4,330**	**-**	**339,014**
Stable (Internal risk grade 3)					
Loans and advances	15,225	56	2,224	6,148	23,653
Undrawn credit commitments	434	-	-	-	434
Total Stable	**15,659**	**56**	**2,224**	**6,148**	**24,087**
Moderate (Internal risk grade 4)					
Loans and advances	51,762	399	-	175	52,336
Total Moderate	**51,762**	**399**	**-**	**175**	**52,336**
Acceptable (Internal risk grade 5)					
Loans and advances	52,018	622	-	226	52,866
Undrawn credit commitments	53,404	84	-	19	53,507
Total Acceptable	**105,422**	**706**	**-**	**245**	**106,373**
Managed (Internal risk grade 6)					
Other financial assets held at AC	-	-	-	28,347	28,347
Loans and advances	-	-	4,514	-	4,514
Total Managed	**-**	**-**	**4,514**	**28,347**	**32,861**
Total	**4,513,796**	**25,935**	**22,646**	**34,915**	**4,597,292**
Financial assets by ECL stage					
Cash and cash equivalents	91,369	-	-	-	91,369
Receivables due from financial institutions	437,894	-	-	-	437,894
Other financial assets held at AC	-	-	-	28,347	28,347
Loans and advances	3,625,789	25,843	22,646	6,549	3,680,827
Off-balance Sheet					
Undrawn credit commitments	358,744	92	-	19	358,855
Total financial instruments by ECL stage	**4,513,796**	**25,935**	**22,646**	**34,915**	**4,597,292**

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management (continued)

Year Ended 30 June 2019 — **Police & Nurses Limited**

Internal rating	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Specific provision Lifetime ECL $000	Total $000
Low (Internal risk grade 1)					
Cash and cash equivalents	57,227	-	-	-	57,227
Receivables due from financial institutions	437,894	-	-	-	437,894
Other financial assets held at AC	367	-	-	-	367
Loans and advances	3,199,402	22,812	11,578	-	3,233,792
Due from controlled entities	21,239	-	-	-	21,239
Undrawn credit commitments	279,558	8	-	-	279,566
Total Low	**3,995,687**	**22,820**	**11,578**	**-**	**4,030,085**
Sound (Internal risk grade 2)					
Loans and advances	307,382	1,954	4,330	-	313,666
Undrawn credit commitments	25,348	-	-	-	25,348
Total Sound	**332,730**	**1,954**	**4,330**	**-**	**339,014**
Stable (Internal risk grade 3)					
Loans and advances	15,225	56	2,224	6,148	23,653
Undrawn credit commitments	434	-	-	-	434
Total Stable	**15,659**	**56**	**2,224**	**6,148**	**24,087**
Moderate (Internal risk grade 4)					
Loans and advances	51,762	399	-	175	52,336
Total Moderate	**51,762**	**399**	**-**	**175**	**52,336**
Acceptable (Internal risk grade 5)					
Loans and advances	52,018	622	-	226	52,866
Undrawn credit commitments	53,404	84	-	19	53,507
Total Acceptable	**105,422**	**706**	**-**	**245**	**106,373**
Managed (Internal risk grade 6)					
Loans and advances	-	-	4,514	-	4,514
Due from controlled entities	-	-	-	29,749	29,749
Total Managed	**-**	**-**	**4,514**	**29,749**	**34,263**
Total	**4,501,260**	**25,935**	**22,646**	**36,317**	**4,586,158**
Financial assets by ECL stage					
Cash and cash equivalents	57,227	-	-	-	57,227
Receivables due from financial institutions	437,894	-	-	-	437,894
Other financial assets held at AC	367	-	-	-	367
Loans and advances	3,625,789	25,843	22,646	6,549	3,680,827
Due from controlled entities	21,239	-	-	29,749	50,988
Off-balance Sheet					
Undrawn credit commitments	358,744	92	-	19	358,855
Total financial instruments by ECL stage	**4,501,260**	**25,935**	**22,646**	**36,317**	**4,586,158**

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management (continued)

(ii) Financial instruments subject to impairment by collateral

The Group employs a range of policies and practices to mitigate credit risk, most notably the receipt of collateral for funds advanced. The Group has internal policies on the acceptability of collateral or credit risk mitigation.

The principal collateral types for financial assets are:

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

The table below discloses the most recent valuation of the collateral held by category.

Year Ended 30 June 2019		Consolidated				
		Gross	ECL	Carrying	Collateral held	
		amount	Provision	amount	Other	Property
	Note	$000	$000	$000	$000	$000
Maximum credit exposure						
Cash and cash equivalents	6	**91,369**	-	**91,369**	-	-
Receivables due from financial institutions	7	**437,894**	**(220)**	**437,674**	-	-
Other financial assets held at AC	11	**28,347**	**(3,746)**	**24,601**	-	**22,022**
Loans and advances [(i)]	14	**3,680,827**	**(5,834)**	**3,674,993**	**35,733**	**7,038,328**
- Home loans		3,534,560	(4,465)	3,530,095	-	6,671,534
- Secured overdrafts		32,552	(60)	32,492		275,672
- Personal loans		34,088	(523)	33,565	35,716	-
- Overdraft & credit cards		36,749	(582)	36,167	17	-
- Commercial & property finance		42,878	(204)	42,674	-	91,122
Total		**4,238,437**	**(9,800)**	**4,228,637**	**35,733**	**7,060,350**
Off-Balance Sheet						
Undrawn credit commitments	30	**358,855**	**(278)**	**358,577**	-	-
Maximum credit exposure		**4,597,292**	**(10,078)**	**4,587,214**	**35,733**	**7,060,350**

(i) Gross loans and advances after effective rate adjustment.

Year Ended 30 June 2019		Police & Nurses Limited				
		Gross	ECL	Carrying	Collateral held	
		amount	Provision	amount	Other	Property
	Note	$000	$000	$000	$000	$000
Maximum credit exposure						
Cash and cash equivalents	6	**57,227**	-	**57,227**	-	-
Receivables due from financial institutions	7	**437,894**	**(220)**	**437,674**	-	-
Other financial assets held at AC	11	**367**	-	**367**	-	-
Loans and advances [(i)]	14	**3,680,827**	**(5,834)**	**3,674,993**	**35,733**	**7,038,328**
- Home loans		3,534,560	(4,465)	3,530,095	-	6,671,534
- Secured overdrafts		32,552	(60)	32,492	-	275,672
- Personal loans		34,088	(523)	33,565	35,716	-
- Overdraft & credit cards		36,749	(582)	36,167	17	-
- Commercial & property finance		42,878	(204)	42,674	-	91,122
Due from controlled entities	17	**50,988**	**(3,823)**	**47,165**	-	-
Total		**4,227,303**	**(9,877)**	**4,217,426**	**35,733**	**7,038,328**
Off-Balance Sheet						
Undrawn credit commitments	30	**358,855**	**(278)**	**358,577**	-	-
Maximum credit exposure		**4,586,158**	**(10,155)**	**4,576,003**	**35,733**	**7,038,328**

(i) Gross loans and advances after effective rate adjustment.

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management (continued)

Year Ended 30 June 2018 — **Credit risk rating**

	Maximum exposure to credit risk	Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6 (managed)
2018	$000	$000	$000	$000	$000	$000	$000
Derivatives	112	112	-	-	-	-	-
Fully performing loans							
Home loans	2,980,505	2,605,616	303,548	71,341	-	-	-
Secured overdrafts	32,364	32,274	84	6	-	-	-
Commercial loans	45,065	1,927	477	2,736	18,950	20,975	-
Personal loans	36,442	-	-	-	36,442	-	-
Unsecured overdrafts and credit cards	25,020	-	-	-	-	25,020	-
Total fully performing loans	3,119,396	2,639,817	304,109	74,083	55,392	45,995	-
Past due loans							
Home loans							
1-7 days	22,233	20,653	882	698	-	-	-
8-30 days	25,513	22,157	3,348	8	-	-	-
31-60 days	11,967	10,090	1,443	434	-	-	-
61-89 days	3,472	2,286	738	448	-	-	-
Total	63,185	55,186	6,411	1,588	-	-	-
Security held (i)	100,018						
Secured overdrafts							
1-7 Days	1,037	922	115	-	-	-	-
8-30 Days	579	579	-	-	-	-	-
31-60 days	71	71	-	-	-	-	-
61-89 days	577	577	-	-	-	-	-
Total	2,263	2,148	115	-	-	-	-
Security held (i)	11,754						
Commercial Loans							
1-7 days	1,650	-	-	1,650	-	-	-
8-30 days	1,211	-	1,211	-	-	-	-
Total	2,861	-	1,211	1,650	-	-	-
Security held (i)	4,779						
Personal loans							
1-7 days	264	-	-	-	264	-	-
8-30 days	652	-	-	-	652	-	-
31-89 days	362	-	-	-	362	-	-
Total (iii)	1,278	-	-	-	1,278	-	-
Unsecured overdrafts and credit cards							
1-7 days	6,674	-	-	-	-	6,674	-
8-30 days	18	-	-	-	-	18	-
Total	6,693	-	-	-	-	6,693	-
Total past due loans	76,280	57,334	7,737	3,238	1,278	6,693	-
Impaired loans							
Home loans							
90 days plus	8,808						
Security held (i)	11,004						
Commercial Loans							
90 days plus	7,383						
Security held (ii)	9,880						
Personal loans							
90 days plus	206						
Unsecured overdrafts and credit cards							
90 days plus	1,354						
Total impaired loans	17,751						
Securitised loans	342,377						
Total loans portfolio	3,555,804						

(i) 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.

(ii) 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.

(iii) 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

34 FINANCIAL RISK MANAGEMENT (continued)

(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 members 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.

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 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.

Year Ended 30 June 2019	Consolidated		Police & Nurses Limited	
	2019	2018	**2019**	2018
Capital adequacy ratio as at 30 June	**14.93%**	15.44%	**15.00%**	15.53%

Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 22 to 82 are in accordance with the *Corporations Act 2001*, including:

   (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 Group's and Bank's financial position as at 30 June 2019 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 Group and the Bank will be able to pay their 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

P M GABB
Director

S J MELVILLE
Director

Date: 29 August 2019
PERTH, WA

Independent Auditor's Report

Independent auditor's report

To the members of Police & Nurses Limited

Our opinion

In our opinion:

The accompanying financial report of Police & Nurses Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2019 and of their financial performance for the year then ended

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

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company Balance Sheets as at 30 June 2019
- the Consolidated and Company Statements of Changes in Equity for the year then ended
- the Consolidated and Company Cash Flow Statements for the year then ended
- the Consolidated and Company Income Statements and Statements of Comprehensive Income for the year then ended
- the Notes to the Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

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

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
29 August 2019

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Police & Nurses Limited
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