WA's **member-owned** bank

P&N Bank Annual Report | 2013

Directory

Directors

E L Smith (Chairman)
P M Gabb (Deputy Chairman)
E R Bradley (appointed 22 October 2012)
M L Fyfe
W Gregson
E A Manley
S J Melville
K J O'Callaghan
A C Philp
G Sutherland

Chief Executive Officer and Company Secretary

A E (Fred) Huis

Registered Office

Police & Nurses Limited
ABN 69 087 651 876

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

External Auditors

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

Internal Auditors

Ernst & Young
11 Mounts Bay Road
Perth 6000 Western Australia

Contents

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the report of the Directors on pages 15 to 19, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 26 August 2013. The Directors have the power to amend and reissue the financial report.

Police & Nurses Limited publishes its Basel III disclosures (including capital and remuneration) on its website at quarterly intervals. The disclosure covering the period ending 30 June 2013 can be found here: http://pnbank.com.au/PDFDocuments/Miscellaneous/Prudential-Standards-AP330.pdf

Financial results at a glance

	2007 Results	2008 Results	2009 Results	2010 Results	2011 Results	2012 Results	2013 Results	5 year CAGR*	1 year CAGR*
Total loans under management[1] ($M)	1,825	2,046	2,121	2,274	2,439	2,387	2,386	3.12%	-0.04%
Total assets under management[1] ($M)	2,031	2,321	2,438	2,654	2,859	2,830	2,845	4.16%	0.54%
Deposits ($M)	1,067	1,202	1,564	1,686	1,756	1,851	2,032	11.08%	9.82%
Reserves ($M)	151.2	173.7	170.2	196.0	210.8	218.3	232.8	6.03%	6.62%
Group NPAT^ ($M)	19.7	19.2	9.7	23.1	12.8	9.2	13.1	-7.36%	42.26%
Society NPAT^ ($M)	16.1	17.4	11.4	14.4	14.3	11.1	12.1	-6.97%	8.82%

*CAGR: Cumulative Annual Growth Rate ^NPAT: Net Profit After Tax

Notes:
1. Includes off balance sheet loans

Board Members

Eric Laurence Smith
Chairman

Paul Marshall Gabb
Deputy Chairman

Edwin Roy Bradley
Director

Michelle Louise Fyfe
Director

Wayne Gregson
Director

Elizabeth Anne Manley
Director

Stephen John Melville
Director

Karl Joseph O'Callaghan
Director

Alan Craig Philp
Director

Gloria Jean Sutherland
Director

Chairman's Report

"Since our rebrand, I'm pleased to report that our customer satisfaction levels have continued to well exceed that of the big banks with our latest annual independent research resulting in the very high customer satisfaction score of 97%."

Welcome to our first Annual Report as P&N Bank.

With our strong 22 year history as Police & Nurses Credit Society, our organisation celebrated our name change and the birth of P&N Bank early in March 2013.

This change has been one of the most significant in our organisation's history.

Our desire to become a mutual bank came about for two reasons. Firstly, in 2010 the Government unveiled measures to create a "fifth pillar" in the Australian economy whereby large credit unions such as Police & Nurses were able to apply to become a bank. The "fifth pillar" strategy is designed to provide Australians with greater choice and more competition for the big banks. Secondly, our research showed that up to 65% of West Australians did not consider us as a banking alternative because of the barriers of our name association with police and nurses and confusion surrounding the safety and offerings of a credit union. While Police & Nurses Credit Society already held a banking license to operate as a credit union, a significant percentage of the public were not aware that we had the same government guarantees and regulations as the big banks.

Members were consulted and, of the members that voted, 93% were in favour of the name change. After a rigorous approval process, our Board and staff were delighted to receive approval from the Australian Prudential Regulatory Authority (APRA) in late 2012 to become a mutual bank.

When P&N Bank launched, we became and remain WA's largest locally owned and managed bank.

Operating under our long standing member-owned model, P&N Bank continues to provide retail banking services to over 100,000 members, a figure which is growing each month.

Since our rebrand, I'm pleased to report that our customer satisfaction levels have continued to well exceed that of the big banks with our latest annual independent research resulting in the very high customer satisfaction score of 97%. I want to reassure existing and prospective members that member service remains a primary focus for our organisation going forward.

Our member-owned model is a core point of difference to our competitors and one that has served us well for over 22 years. There is no plan to deviate from this successful member-owned model by demutualising. Being owned by you, our members, and not external shareholders, allows our profits to be reinvested into the business to improve products and services, offer fairer fees and make us a more sustainable organisation for the future.

CEO Departure

As many of you are aware, our long standing CEO, Fred Huis has announced that he is to step down later this year.

Fred has led our organisation for just over 30 years, a significant achievement in itself. Over this time, Fred has witnessed a great many changes in the Australian financial and banking sector as well as the WA community.

With a strong conviction for the member-owned banking model, Fred has overseen the evolution of Police & Nurses and ultimately P&N Bank, with a focus on member service and the desire to provide a genuine alternative to the big bank model.

Under Fred's leadership, P&N has successfully launched and operated during a period of economic uncertainty and within an increasingly competitive landscape. Ongoing membership growth and high member satisfaction are testimony to his performance.

Chairman's Report

On behalf of the Board, I would sincerely like to thank Fred for his dedicated service over three decades and wish him the very best for the future.

The Board expects to make an announcement on Fred's successor in the next few months.

Board Positions

At our 2012 Annual General Meeting (AGM), the Constitution was amended to allow for a Board appointed Director following that meeting and a second Board appointed Director following the 2013 AGM. I am pleased to officially welcome our first Board appointed Director, Ed Bradley, who commenced his directorial duties in October last year. The Board will be announcing the second Board appointed Director at this year's AGM on 21 October 2013 with the new Director commencing shortly thereafter.

I too have decided that after 13 years, it's time to step aside as Chairman and have advised the Board of my intention to vacate the position of Chairman of the Board of Directors at this year's AGM. I intend to remain a Director on the P&N Bank Board and look forward to assisting the new Chair as he settles into his role.

Final words from the Chair

As Chairman of the Board of Directors, I am again very proud of the results and progress that our organisation has achieved in the past financial year.

I would like to acknowledge and thank my fellow Directors for their contributions over the past year, especially Paul Gabb. As Deputy Chairman, as well as being the Chairman of the Governance and Remuneration Committee, his workload this year has been immense and I thank him and his family for all the late nights and weekends.

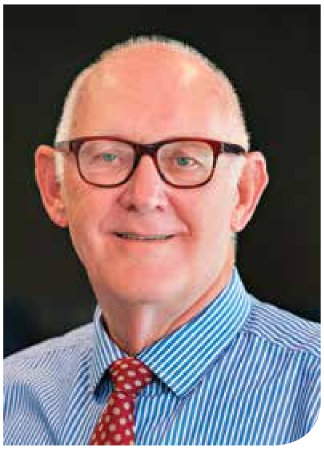
My thanks also go to our Chief Financial Officer, David Spearman who has stepped up as Acting CEO in recent months and to the loyal and hardworking P&N management team and staff who have all continued to work tirelessly for our organisation throughout the past year.

And my final thanks as always must go to you, our members for your loyalty and support throughout these times of exciting change and development for P&N Bank.

Our organisation is very well placed to move into the future with a fresh new focus and look. With our name change now behind us, our Board and Executive have been planning the next strategic phase of P&N's development where we all look forward to welcoming more West Australians as members of P&N Bank.

E L SMITH
Chairman

CEO's Report



"As a mutual bank, it is imperative that P&N Bank continues to offer competitive products and services, and fairer fees alongside our well known high levels of customer service."

The year was once again characterised by a turbulent economy and a fiercely competitive banking environment. With this in mind, I am very pleased to report solid member growth, an overall improvement in many areas of our business and the success of our rebrand to P&N Bank.

With a net profit after tax of $12.1 million, a 9% increase from the previous year's $11.1 million, our results reflect P&N Bank's approach of prudent management and balanced growth underpinned by our member first philosophy.

The results are particularly pleasing when considering the significant impact of converting our organisation from Police & Nurses Credit Society to P&N Bank during this time.

The conversion took place in early March, when our 17 branches opened their doors as P&N Bank for the first time. Over 2,000 individual items were converted to the new P&N Bank look in preparation for the launch which was supported by a major advertising and PR campaign.

While our existing loyal members are vital to our organisation's ongoing success, the change to P&N Bank allows us to appeal to a wider section of the WA community and attract new members from all age groups and all walks of life.

Within the first few months, the new P&N Bank brand developed good traction within the WA community and has continued to go from strength to strength.

As Western Australia's largest locally owned and managed bank, P&N Bank remains firmly committed to the member-owned model. By putting members ahead of profits, excess capital can be reinvested back into the business which will ultimately benefit members.

You will see from the overviews that follow, alongside our rebrand project, P&N Bank has achieved a great many improvements over the past year to continue to enhance our service offering.

As a mutual bank, it is imperative that P&N Bank continues to offer competitive products and services, and fairer fees alongside our well known high levels of customer service. Strong membership growth will improve our sustainability and grant us opportunities to continue to upgrade our technology and compete with the big banks.

These product and service benefits have attracted over 100,000 members to us in the past and we look forward to continuing to refine and expand these offerings as part of a superior, member-first banking experience for our current and new members well into the future.

CEO's Report

Financial Results 2012/13

The financial industry has again been presented with another year of global economic uncertainty.

As a member-owned organisation, we are well placed to weather difficult times compared to many of our competitors because we are not compelled to grow profits for third party shareholders. Our long term success is reliant upon balanced growth and a clear focus on providing competitive and relevant financial services for our members.

Despite the market conditions, we have maintained a strong position through prudent management of costs alongside good growth in membership during the year, up by a healthy 4%.

Members are joining P&N Bank at a faster rate than in the previous 12 months with a significant upswing in the first months following the rebrand.

For most of this year, the loan funding side of our business was generally still soft, but we did experience a major increase in deposits, continuing to demonstrate a trend in the banking industry that people are borrowing less but saving more.

An upsurge in the lending pipeline in the later months of the financial year augurs well for the coming year.

The after-tax net profit for the Bank was $12.1 million, a 9% increase from the previous year's $11.1 million. This was driven in large part by a $3 million reduction in bad and doubtful debt expense.

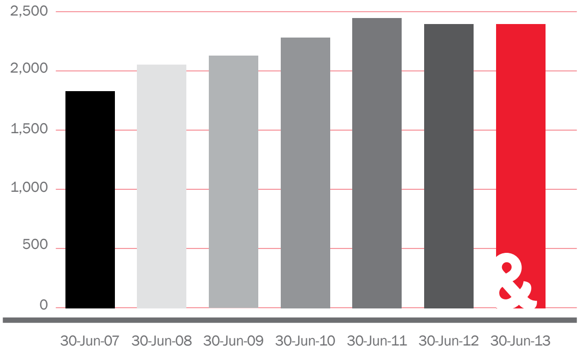
Total Group profit after-tax was $13.1 million, a 42% increase on the previous year's $9.2 million. This is in line with the increase in our Bank profit, along with an improvement in the profit contribution from our property development area.

Our capital levels have improved 1.5% to 16.3% over the year and remain significantly higher than the minimum required by our regulator, demonstrating our strength as an organisation and ability to weather difficult times.

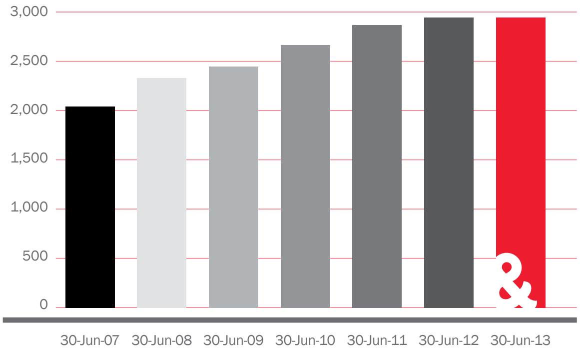
During 2012/13, total Group assets increased by $15 million (1%) to $2.85 billion, with loans and advances flat.

Member deposits improved by $182 million (10%) to $2.0 billion, with total Group reserves, including retained earnings, increasing by $14 million (7%) to $232.8 million.

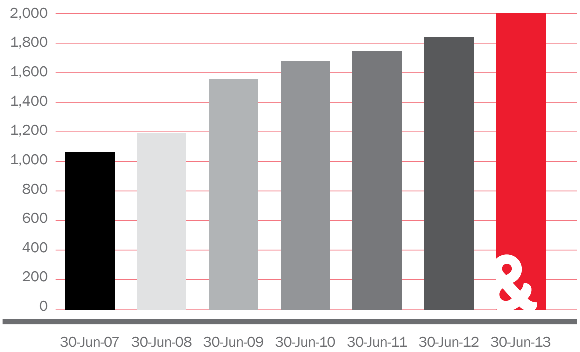
Group net interest income increased by $1.4 million (2%) and doubtful debts expense decreased by $3.2 million (66%) to $1.7 million, with low credit demand providing the opportunity to improve asset quality.



TOTAL LOANS UNDER MANAGEMENT ($M)



TOTAL ASSETS UNDER MANAGEMENT ($M)



DEPOSITS ($M)

Bank non-interest income decreased $1.4 million (9%), partially attributed to lower loan fees passed on to our members. Group non-interest income however increased by $3.6 million (17%), mainly due to an increase in property development sales.

CEO's Report

Member Services

Over the past 12 months we have introduced and improved a number of products and services for members.

Hi Saver

This very popular new product launched on 1 February offering a bonus interest rate in addition to the standard variable rate for balances over $5,000.

Community Account

Launched in December 2012, our Community Account is a transaction account for not-for-profit community groups with no monthly fee and ten free member cheques per month.

Lending Changes

- Our Easypay Plus $1 million loan product was launched in April this year which offers our highest discount available in the Easypay Plus Home Loan Package range.
- Our new Smooth Home Loan launched on 1 July. This is our no Frills home loan that has no monthly fee and offers a discount for lending below 80% Loan to Valuation Ratio (LVR).
- Interest rate tiers within the Fixed Rate Home Loan were launched from 1 July. As with the Smooth Home Loan, this product now offers a ten basis point discount for lending below 80% LVR.

P&N Financial Planning

Our financial planning activities have grown as direct result of investing in a three year program of educational seminars targeted at members of P&N Bank and public sector employees in conjunction with key union and alliance partners.

This investment is expected to continue to deliver above trend growth over the ensuing years and has recently seen P&N Financial Planning take on two additional paraplanners to meet ongoing demand for financial planning services for members.

CEO's Report

New Concept Branch

In keeping up to date with contemporary banking trends, our new concept branch at Joondalup was opened to coincide with the launch of P&N Bank.

The Joondalup branch was designed to showcase the new P&N Bank brand with its modern, open, warm environment and emerging technologies to enhance the delivery of exceptional service.

Featuring a technology bar, a member lounge area and increased space for service pods, the inviting fit out is a departure from a traditional bank branch.

With no teller booths, P&N staff use the new Cash Recycling Dispenser which improves security, opens up member conversation and provides faster service.

The internal glazing represents our member-owned difference through the abstract use of our logo intertwined with graphical depictions of our community and WA. Photography on the internal acoustic panels demonstrates our focus on people and community.

This new look will be rolled out into future P&N Bank branches during our refit programme.

CEO's Report

New Technology

The world is changing in so many ways, none more so than how and when people choose to do their banking.

P&N Bank has continued to invest in technology, offering our members the convenience and flexibility to choose from a number of communications and transaction channels that suit them best.

P&N Bank Website

Our new website has been a boon for members with its improved functionality and navigation. Designed to be more intuitive, visitors can navigate the site not only by products, but by various life scenarios. With our online calculators, the website has proven to be a very easy and accessible tool for mobile and pc users.

We will continue to refine and enhance the website's member benefits as new digital tools and ways of doing business are adopted.

Social Media

Our popular new social media channels of Facebook and Twitter have provided additional ways for our members to communicate with us over and above our branch network and WA based Contact Centre.

Proactive Webchat

P&N's new proactive webchat provides the instant opportunity for anyone to chat online to a live member service consultant in our Contact Centre. After a person has been browsing on the P&N Bank website for a prescribed time during the hours of our Contact Centre, a pop up window appears offering to chat with a consultant online.

Netlink, MiLink and Phone Banking

These popular banking channels continue to be upgraded to enhance our member banking experience. Members can now open new accounts online, activate their new cards and report lost or stolen cards. A new look Netlink is planned for late 2013 with an improved look and member features and benefits.

Mobile Banking App

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

Online Lending

New enhancements to our online lending service allow members to apply for and receive a response to their lending applications online. Further enhancements to our internal processes are being rolled out in the coming year to add even greater member benefits.

Member Satisfaction

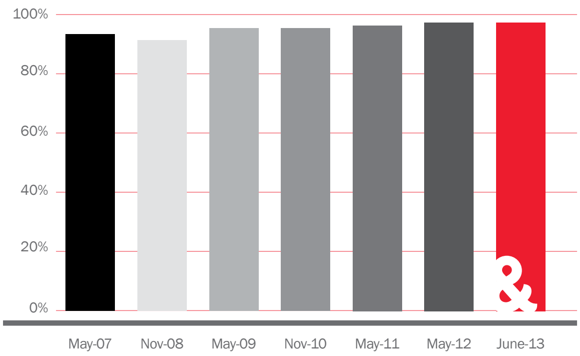
Our annual, independently-conducted Member Satisfaction Survey has demonstrated once again that our 'member first' approach is genuinely appreciated by our members.

Our overall satisfaction result is once again a very impressive 97%.*

This excellent score demonstrates our commitment to superior service and customer satisfaction.

P&N was recognised in the Roy Morgan Customer Satisfaction Awards by being awarded "2012 Credit Union of the Year" in their customer satisfaction annual monitor.

* Source: Wallis Strategic Market & Social Research Satisfaction amongst members of P&N Bank 30 July 2013



MEMBER SATISFACTION

CEO's Report

Community

Our strong commitment to the broader WA community has been evident for over 22 years, with involvement in community activities that have benefitted countless Western Australians.

From large sponsorships to small, our staff and organisation continue to play a vital and dedicated role in supporting community activities and initiatives that positively affect the lives of our fellow Western Australians.

During the last financial year P&N Bank again sponsored a number of initiatives to support our members and their local communities. Some of the larger partnerships are summarised below.

Perth Wildcats

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

Our first year as the Official Membership Partner of the Perth Wildcats was completed in June 2013. During that time, P&N Bank sponsored the Perth Wildcats Member Day in October, two exciting game nights at the new Perth Arena and hosted the Perth Wildcats at the opening of our new Joondalup branch.

This partnership has proven to be a mutually beneficial collaboration. In July, P&N Bank was pleased to re-sign as official Membership Partner for another two years.

RSPCA WA

We continued to support RSPCA WA as a major sponsor of the Million Paws Walk held in May 2013. P&N Bank has been a sponsor of Million Paws Walk for over ten years and a number of our staff took part in the walk to raise money for the RSPCA.

Student Scholarships

Each year, P&N Bank offers a student scholarship program to support four high school students with their studies. Two year 11 students are chosen each year to receive financial assistance and if those winners continue to work hard, their scholarship is then renewed in year 12. The 2013 P&N Bank scholarship winners were Kendra Campbell from Duncraig Senior High School and Solomon Wright from CBC Fremantle.

CEO's Report

Crime Stoppers WA

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

Police Officer of the Year

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

Other Key Sponsorships

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

Looking Ahead

The Australian economy is currently very subdued as the mining boom abates. Unemployment nationally is forecast to rise to 6.25% and Western Australia, with lower levels, will not be immune to higher unemployment.

Interest rates are now at record lows and, with forecast rising unemployment and low economic growth, are unlikely to rise in the near future. The below average forecast growth in the Australian economy will present ongoing challenges for P&N.

We will continue to take a prudent and conservative risk approach for the next financial year which has served us well since the global financial crisis of 2008.

Acknowledgements

As the Chairman outlined in his report, this will be my final report as CEO of P&N Bank. I am grateful to have spent 30 years with such a respected and successful organisation.

There have been frequent challenges during my tenure as CEO and I am very proud of all that we have achieved – especially in transitioning the organisation from a credit society to a bank while maintaining our core focus on personal member service.

I would like to publically acknowledge the dedication and work ethic of our management and staff, over my entire 30 plus years with P&N, who have worked alongside me to make us the organisation we are today. Thank you also to our Board of Directors for their dedication, support and leadership during the past year and throughout my tenure.

I also wish to thank you, our members for your continued loyalty and support and for promoting the benefits of P&N Bank membership to others.

I am confident that P&N Bank is well positioned for its next phase of growth and wish our members and the organisation every success in the future.

A E (FRED) HUIS
Chief Executive Officer

Executive Team

Fred Huis
Chief Executive Officer

Jill Jetson-Shumbusho
Chief Operating Officer

Dave Spearman
Chief Financial Officer

Simon Walsh
Chief Information Officer

Accessible Banking

Branches

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

Local Contact Centre

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

Online Banking

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

Phone & Mobile Banking

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

ATM Network

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

Internet Kiosks

There are P&N Bank internet kiosks in all our branches and onsite at Royal Perth Hospital, Armadale Hospital, Sir Charles Gairdner Hospital and King Edward Memorial Hospital, providing free access to the P&N Bank website.

Financial Planning

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

Insurance

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

Conveyancing

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

Foreign Exchange

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

Report of the Directors

Your Directors present their report on the financial statements of Police & Nurses Limited ("the Bank") and Police & Nurses Limited and its controlled entities ("the Group") for the year ended 30 June 2013.

Corporate Governance

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

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

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

Directors

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

Eric Laurence SMITH (Chairman) FAICD FAMI

Certificate in Police Studies, Diploma of Policing, Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Graduate Certificate of Business (Leadership), Graduate Diploma of Business (Leadership & Management).

Detective Inspector – WA Police. 19 years service as a Director of the Bank; 37 years service as a Police Officer. Audit & Risk Committee and Board Governance Committee member.

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

National Coordinator - Australian Federal Police, 15 years service as a Director of the Bank; 27 years service in Law Enforcement. Board Governance Committee Chairman.

Edwin Roy BRADLEY MBA BBus GAICD FCPA SF Fin (Appointed 22 October 2012)

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

Michelle Louise FYFE APM GAICD

Dip (Policing) Dip Public Safety Policing, Dip (Criminal Investigation), Grad Cert (Applied Management), Grad Dip of Executive Leadership (Policing & Emergency Services). Assistant Commissioner – WA Police, Professional Development Portfolio. 29 years service as a Police Officer, 4 years service as a Director of the Bank. Board Governance Committee and Audit & Risk Committee member.

Wayne GREGSON APM BA MBA GAICD

Commissioner, Department of Fire & Emergency Services (WA). 31 years service as a Police Officer, 4 years service as a Director of the Bank. Audit & Risk Committee and Board Governance Committee member; Nominations Committee Chairman.

Report of the Directors

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

Nursing home CEO and Director of Nursing, 13 years service as a Director of the Bank; 42 years service in the nursing/health profession. Audit & Risk Committee and Board Governance Committee member.

Stephen John MELVILLE B.Bus (Accounting) FCPA GAICD

Director – Corporate Services, Department of State Development. 19 years service as a Director of the Bank. Has held senior executive positions in both private and government organisations with considerable experience in a range of accounting, financial management and marketing roles. Audit & Risk Committee Chairman.

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

Commissioner of WA Police. Eight years service as a Director of the Bank, 40 years service as a Police Officer. Board Governance Committee member.

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

Director, Primary & Ambulatory Care Division, Policy Performance & Quality Branch, Primary Health Care Strategic Policy Section, 33 years in nursing profession, 37 years as a member of the Bank. Five years service as a Director of the Bank. Audit & Risk Committee member.

Gloria Jean SUTHERLAND B App Sc (Nursing) Post Grad Dip Health Education Master of Science GAICD MAMI

Strategic Consultant (Health Planning) with a Perth-based business and advisory consultancy; extensive health leadership experience at regional, state and national levels, 40 years service in nursing/health profession; three years service as a Director of the Bank; Board and Governance Committee & Audit & Risk Committee member.

Each Director holds one member share in the Bank.

Company Secretary

A E (Fred) HUIS FCA SF Fin GAICD

Thirty years service as P&N Company Secretary and Chief Executive Officer.

Composition and Meetings of the Board

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

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

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2013 and the number of meetings attended by each Director.

Report of the Directors

Director	Directors' Meetings		Audit & Risk Committee Meetings		Board Governance Committee Meetings	
	A	B	A	B	A	B
E L Smith	12	10	4	3	4	4
P M Gabb	12	12	*	*	4	4
E R Bradley***	9	9	3	3	*	*
M L Fyfe	12	10	3	2	1	1
W Gregson	12	12	1	1	3	3
E A Manley	12	12	1	1	3	2
S J Melville	12	12	4	4	*	*
K J O'Callaghan**	12	11	*	*	4	4
A C Philp	12	12	4	4	*	*
G J Sutherland	12	12	3	3	1	1

A Number of meetings held during the time the Director held office or was a member of the committee during the year

B Number of meetings attended

* Not a member of the relevant committee

** During the year the nominations committee held one meeting, which was fully attended. This meeting was chaired by Mr Karl O'Callaghan and included two independent attendees.

*** Mr Edwin Bradley was appointed as Director on 22 October 2012.

Director Induction Program

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

Directors' Remuneration

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

Audit & Risk Committee

The Board has established an Audit & Risk Committee to assist in the execution of its responsibilities. The Committee comprises five 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 and maintenance of an internal control framework,
- the establishment and maintenance of a risk management framework, and
- the reliability and integrity of financial information for inclusion in public financial statements.

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

Report of the Directors

Board Governance Committee

The Board has established a Board Governance Committee to assist it by providing informed feedback to the Board on its performance, and to establish a framework to assist the Board to assess the performance of each Director and the Chief Executive Officer. The Committee comprises a minimum of four Directors.

This Committee has written terms of reference, which outlines its roles and responsibilities to enable it to assist the Board in relation to maintaining practices in compliance with the requirements of the prudential standards on fit and proper person and on governance. An appraisal of the Board's performance is conducted annually, with an independent consultant engaged to facilitate the process every third year. The Chairman of the Board through the Board Governance Committee is responsible for the annual assessment methodology of the Board's performance and that of each individual Board member ensuring that both the Board and individual Board members meet the requirements of the prudential standards.

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

Nominations Committee

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

Group Risk Management

The purpose of Group risk management, which includes all subsidiaries of the Bank, is to ensure that appropriate strategies and processes are developed to mitigate risks to the organisation. The risk management systems are maintained with the aim of achieving the following goals:

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

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

Ethical Standards

Board members are expected to act in accordance with any Board approved Code of Conduct.

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

Principal Activities

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

Review of Operations

During the financial year, total assets of the Group increased by $15,152,000 to $2,845,281,000, members' deposits increased by $181,796,000 to $2,032,414,000, and loans and advances decreased by $1,067,000 to $2,385,993,000.

The profit of the Group and the Bank for the financial year after income tax and before minority interest was $13,103,000 (2012: $9,210,000) and $12,125,000 (2012: $11,142,000) respectively.

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

Future Development and Results

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

Bad and Doubtful Debts

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

Assets

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

Report of the Directors

Significant Changes

There has been no significant change in the state of affairs of the Group or Bank during the financial year, other than on 1 October 2012, Police & Nurses Credit Society Limited changed our company name to Police & Nurses Limited, and in March 2013 we changed from a credit society to a bank.

Events Subsequent to the End of the Financial Year

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

Environmental Regulation

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

Register of Directors' Interests

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

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

Insurance of Officers

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

Rounding of Amounts

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

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

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

E L SMITH
Director

P M GABB
Director

Perth
26 August 2013

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Limited for the year ended 30 June 2013, 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
26 August 2013

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Income Statements

YEAR ENDED 30 JUNE 2013	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2013	2012	**2013**	2012
		$000	$000	**$000**	$000
Interest revenue	3	**164,087**	186,300	**163,428**	186,736
Interest expense	3	**105,008**	128,609	**103,127**	127,153
Net interest income		**59,079**	57,691	**60,301**	59,582
Non-interest revenue					
Loan fee revenue		**3,522**	4,114	**3,522**	4,114
Financial services fees		**4,560**	4,803	**4,560**	4,803
Financial planning fees		**2,407**	2,315	**-**	-
Amenity fees		**1,463**	1,298	**-**	-
Other fee revenue		**1,281**	1,178	**811**	768
Insurance commissions		**3,348**	3,265	**3,348**	3,265
Other commissions		**844**	823	**844**	823
Revenue from sale of property developments		**5,639**	1,366	**-**	-
Dividend revenue		**525**	621	**590**	1,121
Other income					
Bad debts recovered		**409**	436	**409**	436
Net gain on disposal of property, plant and equipment		**-**	48	**-**	45
Other income		**385**	536	**358**	444
Total non-interest revenue and other income		**24,383**	20,803	**14,442**	15,819
Total income		**83,462**	78,494	**74,743**	75,402
Bad and doubtful debts expense	8(b)	**1,665**	4,873	**1,665**	4,873
Other expenses					
Auditor’s remuneration	28	**551**	367	**520**	345
Finance costs		**381**	867	**381**	867
Depreciation and amortisation		**3,926**	4,186	**3,663**	3,928
Fees and commissions		**7,189**	6,094	**7,088**	5,976
Property development costs		**4,266**	1,143	**-**	-
Employee benefits expense		**26,398**	26,909	**24,373**	24,740
Information technology costs		**3,947**	3,699	**3,947**	3,697
Marketing costs		**4,583**	3,342	**4,546**	3,299
Other general and administration costs		**8,483**	6,928	**7,503**	5,943
Loss on revaluation of investment property		**480**	804	**-**	-
Loss on disposal of plant and equipment		**155**	77	**155**	77
Rental - operating leases		**5,730**	5,458	**5,496**	5,254
Total expenditure		**67,754**	64,747	**59,337**	59,000
Profit before income tax		**15,708**	13,747	**15,406**	16,402
Income tax expense	4	**2,605**	4,537	**3,281**	5,259
Profit for the year		**13,103**	9,210	**12,125**	11,142
(Profit)/loss attributable to non-controlling interests		**(8)**	(6)	**-**	-
Profit attributable to members		**13,095**	9,204	**12,125**	11,142

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

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2013	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2013	2012	**2013**	2012
		$000	$000	**$000**	$000
Profit for the year		**13,103**	9,210	**12,125**	11,142
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	23c	**1,971**	(2,358)	**1,971**	(2,358)
Income tax relating to this item	4(c)	**(591)**	707	**(591)**	707
Items that will not be reclassified to profit or loss		**-**	-	**-**	-
Other comprehensive income for the year, net of tax		**1,380**	(1,651)	**1,380**	(1,651)
Total comprehensive income for the period		**14,483**	7,560	**13,505**	9,492
Total comprehensive income for the year is attributable to:					
Members of the Bank		**14,475**	7,554	**13,505**	9,492
Non-controlling interests		**8**	6	**-**	-
		14,483	7,560	**13,505**	9,492

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

Balance Sheets

AS AT 30 JUNE 2013	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2013	2012	**2013**	2012
		$000	$000	**$000**	$000
Assets					
Cash and cash equivalents	5	**28,077**	27,619	**11,395**	9,520
Receivables due from other financial institutions	6	**317,533**	297,130	**317,533**	297,130
Trade and other receivables	7	**31,822**	31,011	**18,288**	18,235
Loans and advances	8	**2,385,993**	2,387,060	**2,385,993**	2,387,060
Inventories	10	**39,001**	43,039	**-**	-
Available-for-sale financial assets	11	**2,951**	2,951	**2,888**	2,888
Due from controlled entities	12	**-**	-	**41,170**	43,786
Property, plant and equipment	13	**6,342**	6,742	**6,177**	6,578
Investment properties	14	**22,985**	23,465	**-**	-
Other financial assets	15	**-**	-	**3,083**	3,083
Intangible assets	16	**10,577**	11,113	**8,470**	8,820
Deferred tax assets	17	**-**	-	**1,681**	2,734
Total assets		**2,845,281**	2,830,129	**2,796,678**	2,779,834
Liabilities					
Members' deposits	18	**2,032,414**	1,850,618	**2,033,187**	1,850,918
Trade and other payables	19	**61,572**	68,912	**40,732**	46,960
Derivative financial instruments	9	**2,787**	4,758	**2,787**	4,758
Current tax liabilities		**1,949**	2,957	**1,950**	3,739
Borrowings	20	**503,746**	676,153	**201,022**	274,630
Due to controlled entities	12	**-**	-	**292,039**	387,781
Provisions	21	**5,789**	5,008	**3,174**	2,765
Deferred tax liabilities	22	**4,227**	3,374	**-**	-
Total liabilities		**2,612,484**	2,611,780	**2,574,891**	2,571,552
Net assets		**232,797**	218,349	**221,787**	208,282
Members' funds					
Reserves	23	**203,766**	187,372	**203,766**	187,372
Retained earnings	23	**28,476**	30,430	**18,021**	20,910
Non-controlling interest		**555**	547	**-**	-
Total members' funds		**232,797**	218,349	**221,787**	208,282

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

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2013	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2013	2012	**2013**	2012
		$000	$000	**$000**	$000
Total members' funds (equity) at the beginning of the financial year		**218,349**	210,789	**208,282**	198,790
Changes in the fair value of cash flow hedges, net of tax	23(c)	**1,380**	(1,651)	**1,380**	(1,651)
Net income recognised directly in members' funds (equity)		**1,380**	(1,651)	**1,380**	(1,651)
Profit for the year		**13,103**	9,210	**12,125**	11,142
Total comprehensive income for the year		**14,483**	7,560	**13,505**	9,492
Dividends paid to non-controlling interests (35 cents per share)	23	**(35)**	-	**-**	-
Total members' funds (equity) at the end of the financial year		**232,797**	218,349	**221,787**	208,282
Total comprehensive income for the year is attributable to:					
Members of the Bank		**14,475**	7,554	**13,505**	9,492
Non-controlling interests		**8**	6	**-**	-
		14,483	7,560	**13,505**	9,492

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

Cash Flow Statements

YEAR ENDED 30 JUNE 2013	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2013	2012	**2013**	2012
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**150,289**	174,068	**150,289**	170,491
Interest received from investments		**15,229**	15,909	**14,571**	16,345
Commissions and other income received		**20,921**	28,497	**12,292**	13,576
Borrowing costs – members		**(79,622)**	(89,476)	**(79,622)**	(89,476)
Borrowing costs – banks		**(24,438)**	(42,413)	**(26,621)**	(40,957)
Payments to employees and suppliers (inclusive of GST)		**(68,679)**	(55,952)	**(56,366)**	(46,162)
Income tax outflow		**(3,288)**	(7,608)	**(4,387)**	(7,547)
Net cash inflow from operating activities	24(a)	**10,412**	23,024	**10,156**	16,270
Cash flows from investing activities					
Dividends received		**525**	621	**590**	1,121
(Increase) / decrease in loans and advances		**(190)**	47,129	**(190)**	47,129
Proceeds from sale of property, plant and equipment		**-**	91	**-**	66
Net movement in interest earning deposits		**(20,404)**	(16,882)	**(20,404)**	(16,882)
Net movement in other investments		**4,039**	(202)	**-**	(4)
Payments for property, plant & equipment		**(1,680)**	(2,827)	**(1,650)**	(2,766)
Payments for intangible assets		**(1,631)**	(328)	**(1,631)**	(514)
Loans from controlled entities		**-**	-	**(93,656)**	(57,802)
Net cash inflow / (outflow) from investing activities		**(19,341)**	27,602	**(116,941)**	(29,653)
Cash flows from financing activities					
Net increase in member' deposits		**181,768**	94,609	**182,241**	94,221
Repayments to other financial institutions		**(170,958)**	(138,641)	**(72,158)**	(75,428)
Member shares issued		**41**	58	**41**	58
Member shares redeemed		**(14)**	(17)	**(14)**	(17)
Net cash inflow / (outflow) from financing activities		**10,837**	(43,990)	**110,110**	18,834
Net increase in cash and cash equivalents held		**1,908**	6,636	**3,325**	5,451
Cash and cash equivalents at the beginning of the year		**26,169**	19,533	**8,070**	2,619
Cash and cash equivalents at the end of the year	24(b)	**28,077**	26,169	**11,395**	8,070

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

Notes to the Financial Statements

30 JUNE 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

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

Comparatives

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

New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

(b) Principles of consolidation

(i) Subsidiaries

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(z)).

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

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

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

Notes to the Financial Statements

30 JUNE 2013

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

(ii) Jointly Controlled Assets

The proportionate interests in the assets, liabilities, income and expenses of the joint venture activities have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in note 29.

(c) Loan provisioning

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

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

(d) Property, plant and equipment

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

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

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

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

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

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

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

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

(e) Leasehold improvements

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

(f) Investment property

Investment property, principally comprising freehold residential buildings, is held for long-term amenities fee income and is not occupied by the Group. Investment property is carried at fair value, representing open-market value determined annually. Changes in fair value are recorded in the income statement as part of other income or expenses.

Notes to the Financial Statements

30 JUNE 2013

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

(g) Investments and other financial assets

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

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

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

(h) Intangible assets

(i) Goodwill

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

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

(ii) Computer software costs

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

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

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

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

(iii) Client list

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

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

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or

30 JUNE 2013

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

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

(j) Income tax

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

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

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

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

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

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

Investment allowances

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

Tax consolidation legislation

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

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

In addition to its own current and deferred tax amounts, the Bank also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Notes to the Financial Statements

30 JUNE 2013

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

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

(k) Employee benefits

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

(l) Interest

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

(m) Cash and cash equivalents

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

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

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

(o) Revenue recognition

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

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

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

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

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

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

30 JUNE 2013

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

(p) Inventories

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

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

(q) Derivatives

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

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

Hedge accounting

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

Hedge type and risk	Accounting treatment
Fair value hedge	
Exposure to changes in the fair value of a recognised asset or liability or committed transaction.	Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
Cash flow hedge	
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 profit or loss 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.

30 JUNE 2013

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

(r) Fair value estimation

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

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

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

(s) Borrowings

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

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

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Finance costs incurred relate to facility fees paid to other financial institutions.

(u) Loan securitisation

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

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

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

(v) Other payables

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

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

30 JUNE 2013

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

(w) Loan origination fees and transaction costs

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

(x) Other receivables

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

(y) Goods and Services Tax (GST)

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

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

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

(z) Business combinations

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

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

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

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

(aa) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term

Notes to the Financial Statements

30 JUNE 2013

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

payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

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

(bb) Provisions

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

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

(cc) Rounding of amounts

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

(dd) New accounting standards

Certain new accounting standards have been published that are not mandatory for 30 June 2013 reporting periods. The Group's assessment of the impact of these new standards is set out below.

AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from* AASB 9 *and* AASB 2010-7 *Amendments to Australian Accounting Standards arising from* AASB 9 *(December 2010) and* AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of* AASB 9 *and Transition disclosures* (effective from 1 January 2015).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

AASB 1053 *Application of Tiers of Australian Accounting Standards and* AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013).

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements.

Notes to the Financial Statements

30 JUNE 2013

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

The Group has public accountability as defined in AASB 1053 and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 10 *Consolidated Financial Statements* , AASB 11 *Joint Arrangements* , AASB 12 *Disclosure of Interests in Other Entities* , *revised* AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures and* AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and* AASB 2012-10 *Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements , and Interpretation 12 Consolidation – Special Purpose Entities . The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the contecxt of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group does not expect the new standard to have a significant impact on its disclosures.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

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

AASB 13 *Fair Value Measurement and* AASB 2011-8 *Amendments to Australian Accounting Standards arising from* AASB 13 (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013).

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures , to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001* . While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements* (effective 1 July 2013).

AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Group.

AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities and* AASB 2012-2 *Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 and 1 January 2013 respectively).

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the Group's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective for annual periods beginning on or after 1 January 2013).

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group will apply the amendments from 1 July 2013. See the following table for a summary of the amendments; the Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

Notes to the Financial Statements

30 JUNE 2013

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

Standard	Amendment	Practical implications
Amendment to AASB 1 *First time adoption of AASB*	The amendment clarifies that an entity may apply AASB 1 more than once under certain circumstances.	An entity that previously applied Australian Accounting Standards or IFRS but then stopped is permitted but not required to apply AASB 1 when it recommences applying IFRS or full Australian Accounting Standards (AIFRS). The AASB 1 provisions are designed to ease the process of transition to IFRS / full Australian Accounting Standards (A-IFRS). For an entity that was previously an IFRS preparer or complied with full Australian Accounting Standards, applying AASB 1 as if no IFRS / full A-IFRS financial statements had ever been prepared may be more burdensome than simply resuming the preparation of IFRS/ full A-IFRS financial statements. The amendment permits a choice of whether to apply AASB 1. To avoid abuse, the amendment requires management to disclose why it stopped preparing IFRS / full A-IFRS financial statements and why it has resumed.
Amendment to AASB 1 *First time adoption of AASB*	The amendment clarifies that an entity can choose to adopt AASB 123 Borrowing costs', either from its date of transition or from an earlier date.	From whichever date the entity chooses to adopt AASB 123: - Borrowing costs under previous GAAP are not restated, and - AASB 123 applies to borrowing costs on qualifying assets that were under construction at the date of transition, irrespective of whether borrowing costs were capitalised under previous GAAP.
Amendment to AASB 101 *Presentation of financial statements*	The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: - as required by AASB 108 Accounting policies, changes in accounting estimates and errors, - or voluntarily.	When an entity produces an additional balance sheet as required by AASB 108, the balance sheet should be as at the date of the beginning of the preceding period – that is, the opening position. No notes are required to support this balance sheet. When management provides additional comparative information voluntarily – for example, statement of profit and loss, balance sheet – it should present the supporting notes to these additional statements.

Notes to the Financial Statements

30 JUNE 2013

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

Standard	Amendment	Practical implications
Amendment to AASB 1 as a result of the above amendment to AASB 101	The consequential amendment clarifies that a first-time adopter should provide the supporting notes for all statements presented.	A first-time adopter should provide supporting notes for its transition balance sheet.
Amendment to AASB 116 *Property, plant and equipment*	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	The previous wording of AASB 116 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. Following the amendment, this equipment used for more than one period is classified as property, plant and equipment.
Amendment to AASB 132 *Financial instruments: Presentation*	The amendment clarifies the treatment of income tax relating to distributions and transaction costs.	Prior to the amendment, AASB 132 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. The amendment clarifies that the treatment is in accordance with AASB 112. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity.
Amendment to AASB 134 *Interim financial reporting*	The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.	The amendment brings AASB 134 into line with the requirements of AASB 8 Operating segments. A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the CODM and there has been a material change in those measures since the last annual financial statements.

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

Notes to the Financial Statements

30 JUNE 2013

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Loan provisioning

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

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

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

(ii) Estimated fair values of investment properties

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

(iii) Carrying value of goodwill and client list

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

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

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

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

Notes to the Financial Statements

30 JUNE 2013

3. OPERATING PROFIT

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

	CONSOLIDATED					
Interest Revenue and Interest Expense	**2013**			2012		
	Average balance $000	**Interest $000**	**Average interest rate %**	Average balance $000	Interest $000	Average interest rate %
Interest earning assets						
Deposits with other banks/ADIs	**371,566**	**15,230**	**4.10%**	326,831	15,908	4.87%
Loans and advances	**2,392,750**	**148,857**	**6.22%**	2,402,659	170,392	7.09%
	2,764,316	**164,087**	**5.94%**	2,729,490	186,300	6.83%
Interest bearing liabilities						
Members' deposits	**1,970,331**	**76,506**	**3.88%**	1,796,431	86,196	4.80%
Borrowings from other banks/ADIs	**590,518**	**28,502**	**4.83%**	731,328	42,413	5.80%
	2,560,850	**105,008**	**4.10%**	2,527,759	128,609	5.09%

	2013	2012
Analysis of net interest income		
Net interest income	**59,079**	57,691
Average interest earning assets	**2,764,316**	2,729,490
Net interest margin (1)	**2.14%**	2.11%
Spread (2)	**1.84%**	1.74%

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

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

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**4,317**	4,907	**4,184**	5,842
Deferred tax	**262**	(807)	**462**	(919)
Under / (over) provided for current tax in prior years	**(1,974)**	437	**(1,365)**	336
Income tax expense	**2,605**	4,537	**3,281**	5,259
Deferred income tax expense / (revenue) included in income tax expense comprises:				
(Increase) / decrease in deferred tax assets (note 17)	**332**	(1,375)	**480**	(1,231)
Increase / (decrease) in deferred tax liabilities (note 22)	**(70)**	568	**(18)**	312
	262	(807)	**462**	(919)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**15,708**	13,747	**15,406**	16,402
Prima facie income tax calculated at 30% (2012: 30%)	**4,712**	4,124	**4,622**	4,921
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non deductible entertainment	**1**	2	**1**	1
Tax offset for franked dividends	**(253)**	(480)	**(253)**	(480)
Sundry items	**119**	693	**276**	495
	4,579	4,339	**4,646**	4,937
Under / (over) provision in previous year, relating to:				
Research and development tax incentive	**(927)**	-	**(927)**	-
Other	**(1,047)**	198	**(438)**	322
Income tax expense	**2,605**	4,537	**3,281**	5,259
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited directly to equity (note 17 and 22)	**(591)**	707	**(591)**	707
(d) Franking credits				
Franking credits based on a tax rate of 30%	**62,176**	60,627	**62,059**	60,530

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

(i) franking credits that will arise from the payment of the amount of the current tax liability, and

(ii) franking debits that will arise from the refund receivable of the amount of the current tax asset.

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

Notes to the Financial Statements

30 JUNE 2013

4. INCOME TAX EXPENSE (cont'd)

(e) Tax consolidation legislation

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

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**901**	698	**901**	698
Cash and deposits at call with banks	**21,811**	26,159	**5,129**	8,060
Cash and deposits at call with other ADIs	**5,365**	762	**5,365**	762
	28,077	27,619	**11,395**	9,520
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits - banks	**255,992**	236,638	**255,992**	236,638
Interest earning deposits - other ADIs	**61,541**	60,492	**61,541**	60,492
	317,533	297,130	**317,533**	297,130
The deposits have an effective interest rate of 2.8% to 6.9% (2012: 3.5% to 6.9%).				
7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**1,270**	2,701	**1,270**	2,701
Prepayments	**1,652**	1,639	**1,641**	1,626
Amenities and reserve fund fees	**8,882**	8,151	**-**	-
Member transaction clearing	**46**	30	**46**	30
Land and property development debtors	**4,337**	4,280	**-**	-
Other	**15,628**	14,210	**15,328**	13,877
	31,822	31,011	**18,288**	18,235

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

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
8. LOANS AND ADVANCES				
Revolving credit	**104,248**	131,023	**104,248**	131,023
Term loans	**2,283,124**	2,258,867	**2,283,124**	2,258,867
Related parties (a)	**2,604**	2,757	**2,604**	2,757
	2,389,976	2,392,647	**2,389,976**	2,392,647
Provision for impairment (b)	**(3,983)**	(5,587)	**(3,983)**	(5,587)
Net loans and advances	**2,385,993**	2,387,060	**2,385,993**	2,387,060

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

As at 30 June 2013, securitised loans under management by the Bank amounted to $446,961,824 (2012: $615,415,316) which are included in both the revolving credit and term loans above.

This includes $162,333,628 (2012: $209,226,623) of loans securitised to the Pinnacle RMBS Warehouse Trust No.1, and $123,451,271 (2012: $172,645,420) of loans securitised to the Pinnacle Series Trust 2010 – T1.

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

(a) Aggregate amounts receivable from related parties				
Key management personnel (as defined in note 27) and their related parties	**2,604**	2,757	**2,604**	2,757
	2,604	2,757	**2,604**	2,757
(b) Provision for impairment				
Specific provision				
Opening balance	**5,587**	2,540	**5,587**	2,540
Bad debts previously provided for written off	**(3,269)**	(1,826)	**(3,269)**	(1,826)
Bad and doubtful debts provided for during the year	**1,665**	4,873	**1,665**	4,873
Closing balance	**3,983**	5,587	**3,983**	5,587
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**563**	298	**563**	298
Personal loans	**1,243**	730	**1,243**	730
Home loans	**386**	798	**386**	798
Commercial	**1,077**	-	**1,077**	-
	3,269	1,826	**3,269**	1,826

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps - cash flow hedges (liabilities)	**2,787**	4,758	**2,787**	4,758

(a) Terms and conditions

At balance date, the Bank has interest rate swaps with a notional amount of $215 million (2012: $174 million), on which it pays 2.80% to 6.87% (2012: 3.08% to 7.55%) interest and receives Bank Bill swap rates calculated on the notional amount. The swaps are used to protect the Bank from movements in interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance date. The swaps expire between September 2013 and April 2017 and the related cash flows are expected to occur in the following periods:

Less than one year	**425**	1,285	**425**	1,285
More than one year but less than two years	**2,094**	1,008	**2,094**	1,008
More than two years but less than five years	**268**	2,465	**268**	2,465
	2,787	4,758	**2,787**	4,758

(b) Fair value hierarchy

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

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

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

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED			
10. INVENTORIES	**Land acquisition costs**	**Holding costs**	**Development costs**	**Total**
Land held for sale	**$000**	**$000**	**$000**	**$000**
2013				
Group inventory	**31,735**	**514**	**3,287**	**35,536**
Share of joint venture inventory	**312**	**-**	**3,153**	**3,465**
	32,047	**514**	**6,440**	**39,001**
2012				
Group inventory	35,089	180	3,292	38,561
Share of joint venture inventory	843	342	3,293	4,478
	35,932	522	6,585	43,039

Inventory of $35,208,032 (2012: $33,233,139) is to be recovered greater than 12 months from balance date.

Inventory of $35,499,315 (2012: $37,600,000) and trade and other receivables of nil (2012: nil) are pledged as security for borrowings of $8,364,192 (2012: $11,100,000).

The borrowing facility is non-recourse in nature. Borrowing costs capitalised during the year and included in inventories were nil (2012: $32,500).

"The Reef" at Two Rocks

1. During the year 17 lots (2012: three lots) were sold and settled.

"The Grove at Ashby", Wanneroo

1. The development is substantially completed.
2. The development is coordinated by the Satterley Property Group. The share of the joint venture held is 14.29%.

"The Enclave" at Eagle Bay

1. During the year three lots (2012: three lots) were sold and settled.
2. Titles for the remaining 22 unsold lots are currently held.
3. The share of the joint venture held is 33.33%.

Lot 19 Woollcott Road, Henley Brook

1. This land holding was sold and settled during the year.

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in CUSCAL (a)	**2,888**	2,888	**2,888**	2,888
Investment in “Heron Park” at Harrisdale (b)	**63**	63	**-**	-
	2,951	2,951	**2,888**	2,888

(a) Unlisted securities – Investment in CUSCAL

The investment in CUSCAL is measured at cost as according to its constitution, the equity instruments can only be sold to another mutual ADI at paid up value and therefore do not have a quoted market price in an active market. Additionally, the fair value cannot be reliably measured as there is no publicly available information. The investment is required to enable the Bank to use financial services provided by CUSCAL.

(b) “Heron Park”, Harrisdale

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

P&N Landreach advanced a $3,937,500 (2012: $4,000,000) interest free loan to the syndicate with no commitment to advance any further amounts. This loan is included in trade and other receivables (note 7).

The first stages of the development construction has been completed, with titles for 225 lots now received. Further construction work is being undertaken in a staged manner.

12. DUE FROM / TO CONTROLLED ENTITIES

	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Due from controlled entities (assets)				
Amounts receivable from controlled entities	**-**	-	**31,579**	33,569
Tax related amounts receivable from controlled entities	**-**	-	**-**	317
Deferred securitisation receivable	**-**	-	**9,591**	9,900
	-	-	**41,170**	43,786
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	**-**	-	**292,039**	387,686
Tax related amounts payable to controlled entities	**-**	-	**-**	96
	-	-	**292,039**	387,781

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
13. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	**7,975**	7,826	**7,975**	7,826
Provision for amortisation	**(4,227)**	(4,083)	**(4,227)**	(4,083)
	3,748	3,743	**3,748**	3,743
Plant and equipment				
At cost	**11,103**	10,765	**10,846**	10,538
Provision for depreciation	**(8,509)**	(7,766)	**(8,417)**	(7,703)
	2,594	2,999	**2,429**	2,835
Total property, plant and equipment	**6,342**	6,742	**6,177**	6,578

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

	CONSOLIDATED			POLICE & NURSES LIMITED		
	Leasehold improvements	Plant and equipment	Total	Leasehold improvements	Plant and equipment	Total
	$000	$000	$000	$000	$000	$000
Carrying amount at 1 July 2011	4,750	3,246	7,996	4,750	3,089	7,839
Additions	221	731	952	221	676	897
Disposals	-	(342)	(342)	-	(302)	(302)
Depreciation expense	(1,228)	(636)	(1,864)	(1,228)	(628)	(1,856)
Carrying amount at 30 June 2012	3,743	2,999	6,742	3,743	2,835	6,578
Carrying amount at 1 July 2012	**3,743**	**2,999**	**6,742**	**3,743**	**2,835**	**6,578**
Additions	**1,276**	**404**	**1,680**	**1,276**	**374**	**1,650**
Disposals	**(298)**	**(23)**	**(321)**	**(298)**	**(71)**	**(369)**
Depreciation expense	**(973)**	**(786)**	**(1,759)**	**(973)**	**(709)**	**(1,682)**
Carrying amount at 30 June 2013	**3,748**	**2,594**	**6,342**	**3,748**	**2,429**	**6,177**

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
14. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**23,465**	24,309	**-**	-
Net transfer to inventory	**-**	(40)	**-**	-
Net loss from fair value adjustment	**(480)**	(804)	**-**	-
Closing balance	**22,985**	23,465	**-**	-

(a) Description of investment property

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

(b) Amounts recognised in income statement for investment property

Other income - amenities fees and interest	**1,014**	957	**-**	-
Direct operating expenses from property that generated other income	**(21)**	(57)	**-**	-
Net loss on revaluation of investment property	**(480)**	(804)	**-**	-
	514	96	**-**	-

(c) Valuation

Valuation basis

The basis of the valuation of the investment property is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction. The 30 June 2013 valuation was based on a Directors' valuation. The valuation is on the basis that the property must be sold as a whole and continue to be operated as a retirement village. Additionally, it is a requirement of the lease contract entered into with the residents for the community facilities of the retirement village to be maintained.

The basis for the Directors' valuation was a formal independent valuation prepared by Richard Noble & Company on 30 June 2013.

Assumptions underlying the Directors' valuation

The value of the investment property is attributable to the future amenities fee income. This value has been determined on an assessment of discounted cash flows over a period of 33 years (2012: 34 years). The discounted cash flows are based on the following assumptions:

(i) unit values are based on a weighted average of $418,333 (2012: $395,000) per unit,

(ii) escalation factor of 4% in 2013-14, 5% in 2014-15 and 6% for all subsequent years (2012: 6%) attributable to the unit values which is the market determined long-term growth rate for residential property, adjusted to reflect market conditions,

(iii) unit re-leasing rate equivalent to a comparison of current residents to life expectancy tables produced by the Australian Bureau of Statistics for Western Australia, coupled with a market determined rate of re-leasing occurring for reasons other than death,

(iv) rate of amenities fee income based on the length of anticipated occupancy,

(v) discount rate of 13.25% (2012: 12.5%) per annum pre-tax, and

(vi) current prevailing economic conditions.

Notes to the Financial Statements

30 JUNE 2013

14. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

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

Representation of valuation in financial statements

The Directors' valuation resulted in a net value of $10.27 million (2012: $10.31 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2013	2012
	$000	$000
Net value of property transferred from property, plant and equipment	**13,815**	13,815
Transfer (to)/from inventories	**(38)**	(38)
Net gain from fair value adjustment	**9,208**	9,688
Investment property asset	**22,985**	23,465
Included in property plant and equipment	**55**	55
Add: accrued amenities fees (Other receivables)	**6,712**	6,264
Less: lease loan sum liability (note 19)	**(19,477)**	(19,477)
	10,275	10,307

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
15. OTHER FINANCIAL ASSETS				
Investments in controlled entities	**-**	-	**3,083**	3,083

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

	CONSOLIDATED					
	Interests in controlled entities		**Shares held in controlled entities**			
			Held by the Bank	**Held by other controlled entities**	Held by the Bank	Held by other controlled entities
	2013	2012	**2013**	**2013**	2012	2012
	%	%	**$**	**$**	$	$
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
P&N Landreach Pty Ltd	**100**	100	**1,900**	**-**	1,900	-
Essential Service Homes Pty Ltd	**100**	100	**10,000**	**-**	10,000	-
P&N Management Pty Ltd	**100**	100	**60,000**	**-**	60,000	-
National Home Loans Pty Ltd	**100**	100	**61,500**	**-**	61,500	-
Jacaranda Gardens Retirement Village	**100**	100	**-**	**-**	-	-
Police & Nurses Financial Planning Pty Ltd	**65**	65	**2,550,080**	**-**	2,550,080	-
Pinnacle RMBS Warehouse Trust No 1	**100**	100	**-**	**-**	-	-
Pinnacle Series Trust 2010 - T1	**100**	100	**-**	**-**	-	-
			3,083,483	**19,999**	3,083,483	19,999

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
16. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
	1,572	1,572	**-**	-
Computer software (ii)				
At cost	**22,969**	21,342	**22,969**	21,342
Accumulated amortisation	**(14,499)**	(12,522)	**(14,499)**	(12,522)
	8,470	8,820	**8,470**	8,820
Client list (iii)				
At cost	**1,861**	1,861	**-**	-
Accumulated amortisation	**(1,326)**	(1,140)	**-**	-
	535	720	**-**	-
Total intangible assets	**10,577**	11,113	**8,470**	8,820
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	**1,572**	1,572	**-**	-
Closing carrying amount	**1,572**	1,572	**-**	-
(ii) Computer software				
Opening carrying amount	**8,820**	8,307	**8,820**	8,307
Additions	**1,631**	2,412	**1,631**	2,412
Amortisation charge *	**(1,981)**	(1,899)	**(1,981)**	(1,899)
Closing carrying amount	**8,470**	8,820	**8,470**	8,820
(iii) Client list				
Opening carrying amount	**720**	906	**-**	-
Amortisation charge *	**(186)**	(186)	**-**	-
Closing carrying amount	**534**	720	**-**	-

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

(a) Impairment tests for goodwill

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

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

Management determined value-in-use based on past performance and its expectations for the future. The assumptions used reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd. The value used in this calculation is based on a discount rate of 13.0% (2012: 13.0%) and a multiple of recurring income of three (2012: three).

(c) Impact of possible changes in key assumptions

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

(d) Impairment charge

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

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
17. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,195**	1,676	**1,195**	1,676
Intangible assets – client list	**398**	342	**-**	-
Business related costs	**101**	177	**82**	159
Provisions	**1,685**	1,458	**952**	829
Depreciation	**782**	804	**725**	742
Accruals	**147**	183	**77**	105
	4,308	4,640	**3,031**	3,511
Amounts recognised directly in equity				
Cash flow hedges	**836**	1,427	**836**	1,427
	5,144	6,067	**3,867**	4,938
Offset to/from deferred tax liabilities (note 22)	**(5,144)**	(6,067)	**(2,186)**	(2,204)
Net deferred tax assets	**-**	-	**1,681**	2,734
Movements:				
Opening balance	**6,067**	3,985	**4,938**	3,000
(Charged) / credited to the income statement (note 4)	**(332)**	1,375	**(480)**	1,231
(Charged) / credited to equity	**(591)**	707	**(591)**	707
Closing balance	**5,144**	6,067	**3,867**	4,938
18. MEMBERS' DEPOSITS				
Call deposits	**822,620**	611,681	**822,869**	611,681
Term deposits	**1,202,839**	1,236,960	**1,203,363**	1,237,260
Withdrawable shares (a)	**689**	662	**689**	662
Related parties (b)	**6,266**	1,315	**6,266**	1,315
	2,032,414	1,850,618	**2,033,187**	1,850,918

Interest is calculated on a daily balance outstanding.

Notes to the Financial Statements

30 JUNE 2013

18 MEMBERS' DEPOSITS (cont'd)

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

There were 71,752 (2012: 69,034) member shares on issue at the end of the year:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Number of $10 shares	**65,738**	63,153	**65,738**	63,153
Number of $6 shares	**5,225**	5,369	**5,225**	5,369
Number of $0 shares	**789**	512	**789**	512
	71,752	69,034	**71,752**	69,034
Movements:				
Opening number of shares	**69,034**	65,081	**69,034**	65,081
New shares issued during the year	**5,510**	6,674	**5,510**	6,674
Resignations during the year	**(2,792)**	(2,721)	**(2,792)**	(2,721)
Closing balance	**71,752**	69,034	**71,752**	69,034

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

19. TRADE AND OTHER PAYABLES

Accrued interest payable	**12,183**	15,299	**12,183**	15,299
Securitised loan repayments payable	**5,512**	7,947	**5,512**	7,947
Lease loan sums (note 14)	**19,477**	19,477	**-**	-
Other payables	**24,400**	26,189	**23,037**	23,714
	61,572	68,912	**40,732**	46,960

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

20. BORROWINGS

Secured				
Overdrafts from other ADIs (a)	**-**	1,450	**-**	1,450
Loans from other ADIs (b)	**10,409**	13,484	**-**	-
Notes payable	**292,315**	388,039	**-**	-
Securitised borrowings	**161,177**	233,543	**161,177**	233,543
Unsecured	**39,845**	39,637	**39,845**	39,637
	503,746	676,153	**201,022**	274,630

(a) Interest charged on overdrafts from other ADIs is at the bank's benchmark rate. Details of the security over the bank overdrafts are set out in note 26.

(b) Interest charged on loans from other ADIs is at the financial institutions floating rate. The securities for loans from other ADIs are described in note 10.

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
21. PROVISIONS				
Employee benefits (a)	**3,110**	2,846	**2,927**	2,698
Make good (b)	**247**	66	**247**	66
Refurbishment (c)	**2,432**	2,096	**-**	-
	5,789	5,008	**3,174**	2,764
(a) Provision for employee benefits				
Opening balance	**2,846**	3,075	**2,698**	2,979
Employee benefits previously provided for paid out	**(2,319)**	(2,871)	**(2,157)**	(2,707)
Employee benefits provided for during the year	**2,582**	2,642	**2,386**	2,426
Closing balance	**3,110**	2,846	**2,927**	2,698

The provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers conditional entitlements for employees with five or more years of service, and all unconditional entitlements (including pro-rata entitlements) where employees have completed the required period of service.

Based on previous experience, the Group expects the accrued leave entitlements to be paid out as follows:

Within the next 12 months	**2,345**	2,208	**2 ,162**	2085
Between one and two years	**152**	120	**152**	120
Later than two years	**613**	518	**613**	493
	3,110	2,846	**2,927**	2,698

(b) Provision for make good				
Opening balance	**66**	84	**66**	84
Adjustment to the provision	**-**	(18)	**-**	(18)
Make good provided for during the year	**181**	-	**181**	-
Closing balance	**247**	66	**247**	66

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

The Group expects the make good provisions to be paid out as follows:

Between one and two years	**66**	-	**66**	-
Between two and three years	**-**	66	**-**	66
Between five and six years	**181**	-	**181**	-
	247	66	**247**	66

(c) Provision for refurbishment				
Opening balance	**2,096**	1,774	**-**	-
Refurbishment previously provided for expensed	**(61)**	-	**-**	-
Refurbishment provided for during the year	**397**	322	**-**	-
Closing balance	**2,432**	2,096	**-**	-

The provision for refurbishment is in relation to the Jacaranda Gardens Retirement Village and represents the funds which are accrued under the lease for life arrangement and which will be released or paid out when refurbishment of capital items within the retirement village is required. It is not possible to estimate the timing of the outflows relating to this provision.

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
22. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**2,445**	2,470	**-**	-
Intangible assets - software	**2,186**	2,203	**2,186**	2,204
Inventory	**1,412**	1,598	**-**	-
Fair value adjustment to investment property	**2,763**	2,681	**-**	-
Capital works	**565**	489	**-**	-
	9,371	9,441	**2,186**	2,204
Offset to / from deferred tax liabilities (note 17)	**(5,144)**	(6,067)	**(2,186)**	(2,204)
Net deferred tax liabilities	**4,227**	3,374	**-**	-
Movements:				
Opening balance	**9,441**	8,873	**2,204**	1,892
(Credited) / charged to the income statement (note 4)	**(70)**	568	**(18)**	312
Closing balance	**9,371**	9,441	**2,186**	2,204
23. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**205,000**	190,000	**205,000**	190,000
Share capital reserve (b)	**717**	703	**717**	703
Cash flow hedges (c)	**(1,951)**	(3,331)	**(1,951)**	(3,331)
	203,766	187,372	**203,766**	187,372
Retained earnings				
Balance at beginning of year	**30,430**	36,242	**20,910**	24,784
Profit for the year	**13,095**	9,204	**12,125**	11,142
Total available for appropriation	**43,525**	45,446	**33,035**	35,926
Aggregate of amounts transferred to reserves	**(15,014)**	(15,017)	**(15,014)**	(15,017)
Dividends paid to non-controlling interest	**(35)**	-	**-**	-
Balance at end of year	**28,476**	30,430	**18,021**	20,910

Notes to the Financial Statements

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
23. RESERVES AND RETAINED EARNINGS (cont'd)				
(a) General reserve				
Balance at beginning of year	**190,000**	175,000	**190,000**	175,000
Transfer from retained profits	**15,000**	15,000	**15,000**	15,000
Balance at end of year	**205,000**	190,000	**205,000**	190,000

Nature and purpose of general reserve

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

(b) Share capital reserve				
Balance at beginning of year	**703**	686	**703**	686
Transfer from retained profits	**14**	17	**14**	17
Balance at end of year	**717**	703	**717**	703

Nature and purpose of share capital reserve

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

(c) Cash flow hedges				
Balance at beginning of year	**(3,331)**	(1,680)	**3,331)**	(1,680)
Revaluation	**1,971**	(1,651)	**1,971**	(1,651)
Income tax on revaluation	**(591)**	707	**(591)**	707
Balance at end of year	**(1,951)**	(3,331)	**(1,951)**	(3,331)

Nature and purpose of hedging reserve – cash flow hedges

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

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
24. 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	**13,103**	9,210	**12,125**	11,142
Depreciation and amortisation	**3,926**	4,186	**3,663**	3,928
Bad and doubtful debts	**1,665**	4,872	**1,665**	4,872
Bad debts recovered	**(409)**	(436)	**(409)**	(436)
Loss / (gain) on disposal of property, plant and equipment	**155**	30	**155**	32
Dividend received	**(525)**	(621)	**(590)**	(1,121)
Increase / (decrease) in provisions	**776**	78	**411**	(353)
(Increase) / decrease in loan interest receivable	**1,431**	(100)	**1,431**	(100)
(Increase) / decrease in other receivables	**-**	(19)	**1,222**	(3,858)
(Increase) / decrease in inventory	**4,039**	(5)	**-**	-
Increase / (decrease) in member interest payable	**(3,116)**	3,280	**(3,116)**	3,280
Decrease in accrued expenses and trade and other payables	**(10,938)**	(1,765)	**(5,647)**	(3,934)
Increase / (decrease) in current tax liabilities	**1,008)**	2,202	**(1,789)**	1,368
(Increase) / decrease in deferred tax asset	**-**	(3,985)	**1,053**	(266)
Increase in deferred tax liabilities	**853**	5,499	**-**	1,892
Increase in sundry debtors and prepayments	**(20)**	(206)	**(18)**	(176)
Fair value adjustment to investment property	**480**	804	**-**	-
Net cash inflow from operating activities	**10,412**	23,024	**10,156**	16,270
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents balance comprises:				
– Cash	**28,077**	27,619	**11,395**	9,520
– Bank overdraft	**-**	(1,450)	**-**	(1,450)
Closing cash balance	**28,077**	26,169	**11,395**	8,070

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
25. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– payable not later than one year	**996**	549	**996**	549
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than one year	**5,679**	5,531	**5,679**	5,531
– later than one and not later than five years	**18,882**	17,213	**18,882**	17,213
– later than five years	**3,767**	6,434	**3,767**	6,434
Aggregate lease expenditure contracted for at balance date	**28,328**	29,178	**28,328**	29,178

Significant leasing arrangements

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

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
26. CONTINGENT LIABILITIES, CREDIT COMMITMENTS AND FINANCING FACILITIES				
Credit related commitments				
Approved but undrawn loans and credit limits	**270,858**	250,513	**270,858**	250,513

The Bank has entered into the following financing arrangements with:

i. Credit Union Services Corporation (Australia) Limited and VISA International Services Association to participate in the “VISA card programme”.

ii. Credit Union Services Corporation (Australia) Limited to participate in the “redinet scheme”.

iii. Credit Union Services Corporation (Australia) Limited to participate in the:

- standby credit facility: $42,000,000 (unused as at 30 June 2013)
- derivatives guarantee facility: $3,000,000 ($1,200,000 used as at 30 June 2013)
- overdraft: $5,000,000 (unused as at 30 June 2013)

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

iv. Bank of Western Australia Limited - fully fluctuating overdraft facility: $5,000,000. This facility was unused at 30 June 2013. This facility may be drawn at any time and may be terminated by the bank without notice.

v. Credit Union Financial Support System Limited - with effect from 1 July 1999, the Bank is a party to the CUFSS Industry Support Contract registered under Section 66 of *The Banking Act*. CUFSS is a voluntary scheme for Australian mutual ADIs (credit unions, building societies and mutual banks). CUFSS is a company limited by guarantee, with each member’s guarantee being $100. As a member of CUFSS, the Bank:

- may be required to advance funds of up to 3% (excluding permanent loans) of total assets to another mutual ADI requiring financial support,
- may be required to advance permanent loans of up to 0.2% of total assets per financial year to another mutual ADI requiring financial support,
- agrees, in conjunction with other members, to fund the operating costs of CUFSS.

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

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$	$	**$**	$
27. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,026,505**	2,763,651	**2,026,505**	2,763,651
Short-term employee benefits	**1,866,414**	2,254,129	**1,866,414**	2,254,129
Post-employment benefits	**160,091**	193,582	**160,091**	193,582
Termination benefits	**-**	315,940	**-**	315,940
	2,026,505	2,763,651	**2,026,505**	2,763,651

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

Included in the total key management personnel remuneration is Directors' remuneration (including superannuation contributions) of $416,102 (2012: $384,882).

As members of the Bank, the key management personnel and their related entities have available to them all of the services under normal member terms and conditions. These loans outstanding to key management personnel and their related entities as at 30 June 2013 amounted to $2,127,802 (2012: $1,148,563).

During the year loan advances amounted to $2,527,096 (2012: $635,948) and repayments amounted to $1,908,142 (2012: $1,003,300). Interest on these loans amounted to $119,055 (2012: $82,431).

In addition, to encourage recruitment and retention of employees, the Bank offers staff discounts primarily in relation to home loans (up to certain limits), to which a discount to the market interest rate of up to 0.75% is offered. As employees of the Bank, key management personnel that are not Directors can access these discounts. The total of these loans outstanding as at 30 June 2013 amounted to $476,075 (2012: $1,607,980). During the year loan advances amounted to $250,917 (2012: nil) and repayments amounted to $23,940 (2012: $165,305). Interest on these loans amounted to $13,742 (2012: $77,723). All of these loans are secured, except loan balances of $19,221 (2012: nil).

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

All key management personnel and their related entities have placed deposits with the Bank during the year under normal member terms and conditions. The balance of these deposits as at 30 June 2013 amounted to $6,265,564 (2012: $1,315,082). During the year additional deposits amounted to $10,840,502 (2012: $4,692,637) and withdrawals amounted to $5,449,414 (2012: $5,095,873). Interest on these deposits amounted to $63,560 (2012: $46,335).

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

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$'000**	$000
28. AUDITOR'S REMUNERATION				
(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity - PricewaterhouseCoopers				
– statutory financial reports audit services:				
relating to prior year	**129**	47	**143**	47
relating to current year	**148**	107	**148**	107
– other assurance services	**99**	91	**63**	73
	376	245	**354**	227
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
– income tax advice	**74**	66	**67**	66
– fringe benefits tax advice	**7**	11	**7**	7
– other (including R&D tax advice)	**94**	45	**92**	45
	175	122	**166**	118
Total auditor's remuneration	**551**	367	**520**	345

Notes to the Financial Statements

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29. INTERESTS IN JOINT VENTURES

Jointly controlled assets

A controlled entity has entered into the following joint venture activities, all of which are subject to joint control:

Wanneroo North joint venture

The controlled entity has a 14.29% participating interest in this joint venture to develop a subdivision of land for residential housing and is entitled to 14.29% of its output.

Eagle Bay joint venture

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

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

	CONSOLIDATED	
	2013	2012
	$000	$000
Trade and other receivables	**4**	4,804
Inventories (land held for sale)	**3,465**	6,347
Share of assets employed in joint ventures	**3,469**	11,151
Other liabilities	**-**	133
Borrowings	**2,420**	2,558
Share of liabilities employed in joint ventures	**2,420**	2,690

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

	CONSOLIDATED	
	2013	2012
	$000	$000
Revenue from sale of property developments	**630**	723
Share of income in joint ventures	**630**	723
Property development costs	**621**	606
Interest expense	**343**	379
Other general and administration costs	**91**	62
Share of expenses in joint ventures	**1,055**	1,047

Notes to the Financial Statements

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30. RELATED PARTY DISCLOSURES

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

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

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

	POLICE & NURSES LIMITED	
	2013	2012
	$000	$000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the wholly-owned Group:		
Interest revenue	**4,398**	4,465
Interest expense	**19,913**	27,063
Dividend revenue	**65**	500
Aggregate amounts receivable from entities in the wholly-owned Group at balance date	**31,579**	33,569

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT

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

- market risk,
- liquidity risk,
- credit risk.

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit & 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 Audit & 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 Audit & 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 & Risk Committee.

(a) Market risk management – objectives and policies

Market risk exposure is the risk that the fair value or future cash flows from banking activities will fluctuate because of changes in market rates. The Bank's only exposure is to changes in interest rates as it does not have any dealings in foreign currencies, commodities or equity products. The Bank does not have a trading book and uses derivatives to minimise exposures arising out of normal banking activities as part of its hedging strategy. The Bank applies a 'Value at Risk' methodology (VaR) to its non-trading portfolio to estimate the market risk of positions taken and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The largest risk exposure is the repricing risk associated with the Bank's fixed rate lending and fixed term deposit portfolios, though these are off-set with the risk being largely removed through the utilisation of derivative contracts provided by third parties which swap the longer fixed rate exposures for short-term variable rate exposures.

The Bank manages limits and controls its market risk through its Assets and Liabilities Committee reporting via the Chief Executive Officer 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 Policy and monitored on an ongoing basis with annual reviews by the Board.

Significant policies and processes for managing risk include:

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

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

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

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate sensitivity analysis

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

		CONSOLIDATED			
		+100bp		-100bp	
	Carrying amount	**Income statement**	**Other movements in equity**	**Income statement**	**Other movements in equity**
	$000	**$000**	**$000**	**$000**	**$000**
2013					
Cash and cash equivalents	**28,077**	**288**	**-**	**(288)**	**-**
Due from banks	**317,533**	**3,175**	**-**	**(3,175)**	**-**
Loans (i)	**2,385,993**	**21,668**	**-**	**(21,668)**	**-**
Derivatives	**(2,787)**	**-**	**445**	**-**	**(445)**
Overdrafts	**-**	**-**	**-**	**-**	**-**
Members' deposits (ii)	**(2,032,414)**	**(8,228)**	**-**	**8,228**	**-**
Borrowings	**(503,746)**	**(5,064)**	**-**	**5,064**	**-**
Total increase / (decrease)	**192,656**	**11,839**	**445**	**(11,839)**	**(445)**
2012					
Cash and cash equivalents	27,619	298	-	(272)	-
Due from banks	297,130	2,971	-	(2,971)	-
Loans (i)	2,387,060	21,930	-	(21,930)	-
Derivatives	(4,758)	-	592	-	(592)
Overdrafts	(1,450)	(14)	-	14	-
Members' deposits (ii)	(1,850,618)	(6,116)	-	6,116	-
Borrowings	(674,704)	(6,759)	-	6,759	-
Total increase / (decrease)	180,280	12,310	592	(12,284)	(592)

Notes to the Financial Statements

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31. FINANCIAL RISK MANAGEMENT (cont'd)

	POLICE & NURSES LIMITED				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2013					
Cash and cash equivalents	**11,395**	**117**	**-**	**(60)**	**-**
Due from banks	**317,533**	**3,175**	**-**	**(3,175)**	**-**
Loans (i)	**2,385,993**	**21,668**	**-**	**(21,668)**	**-**
Derivatives	**(2,787)**	**-**	**445**	**-**	**(445)**
Overdrafts	**-**	**-**	**-**	**-**	**-**
Members' deposits (ii)	**(2,033,187)**	**(8,231)**	**-**	**8,231**	**-**
Borrowings	**(201,022)**	**(2,021)**	**-**	**2,021**	**-**
Due to controlled entities	**(292,039)**	**(2,920)**	**-**	**2,920**	**-**
Total increase / (decrease)	**185,886**	**11,788**	**445**	**(11,731)**	**(445)**
2012					
Cash and cash equivalents	9,520	117	-	(92)	-
Due from banks	297,130	2,971	-	(2,971)	-
Loans (i)	2,387,060	21,930	-	(21,930)	-
Derivatives	(4,758)	-	592	-	(592)
Overdrafts	(1,450)	(14)	-	14	-
Members' deposits (ii)	(1,850,918)	(6,117)	-	6,117	-
Borrowings	(273,180)	(2,737)	-	2,737	-
Due to controlled entities	(387,781)	(3,878)	-	3,878	-
Total increase / (decrease)	175,622	12,273	592	(12,248)	(592)

(i) 1% shift applied to the value of variable loans held at year end calculated on $2,170,894,385 (2012: $2,192,979,565). The remaining balance represents fixed rate loans for 2013/2014, which are not subject to interest rate movements for the period.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $823,308,883 (2012: $611,632,679). The remaining balance represents fixed rate deposits for 2013/2014, which are not subject to interest rate movements for the period.

30 JUNE 2013	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
31. FINANCIAL RISK MANAGEMENT (cont'd)				
Fair value estimation - interest rate swaps (liability)	**2,787**	4,758	**2,787**	4,758

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

(b) Liquidity risk management - objectives and policies

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

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

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

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

Financing arrangements

The Bank also maintains $42.0 million (2012: $45.0 million) of CUSCAL standby facilities to support its liquidity arrangements. Additional liquidity support is available in the form of $10.0 million (2012: $7.0 million) of overdraft facilities, of which $5.0 million (2012: $2.0 million, undrawn) is with CUSCAL and $5.0 million (2012: $5.0 million, undrawn) is with Bankwest. Both these facilities were undrawn as at 30 June 2013.

The Bank also utilises Bridges funding facilities via CUSCAL. This facility has a limit of $40.0 million, of which $155,000 (2012: $363,000) remained undrawn at 30 June 2013.

Also maintained by the Bank are:

- the Entourage securitisation facility with The Royal Bank of Scotland of $166.3 million (2012: $239.8 million), of which nil (2012: nil) was available at 30 June 2013,
- a securitisation facility with ANZ under the Pinnacle RMBS Warehouse Trust of $500 million (2012: $500 million), of which $338 million (2012: $291 million) was available at 30 June 2013, and
- a term securitisation facility under the Pinnacle Series Trust 2010-T1 of $126.8 million (2012: $177.5 million).

Notes to the Financial Statements

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

The Group and the Bank had access to the following undrawn borrowing facilities at 30 June 2013:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Floating rate				
Expiring within one year (overdrafts and standby facilities)	**52,000**	52,000	**52,000**	52,000
	52,000	52,000	**52,000**	52,000

	CONSOLIDATED			
	On demand	Less than 3 months	3 to 12 months	1 to 5 years
Maturities of financial liabilities	$000	$000	$000	$000
2013				
Overdrafts	**-**	**-**	**-**	**-**
Borrowings	**-**	**88,388**	**145,737**	**269,621**
Members' deposits	**822,620**	**909,111**	**282,427**	**18,256**
Derivative financial instruments	**-**	**100**	**325**	**2,362**
	822,620	**997,599**	**428,489**	**290,239**
2012				
Overdrafts	1,450	-	-	-
Borrowings	-	82,160	130,334	462,210
Members' deposits	612,324	990,542	223,488	24,265
Derivative financial instruments	-	22	1,263	3,473
	613,774	1,072,724	355,085	489,948

	POLICE & NURSES LIMITED			
	On demand	Less than 3 months	3 to 12 months	1 to 5 years
Maturities of financial liabilities	$000	$000	$000	$000
2013				
Overdrafts	**-**	**-**	**-**	**-**
Borrowings	**-**	**57,094**	**51,747**	**92,181**
Members' deposits	**822,869**	**909,111**	**282,427**	**18,780**
Derivative financial instruments	**-**	**100**	**325**	**2,362**
	822,869	**966,305**	**334,499**	**113,323**
2012				
Overdrafts	1,450	-	-	-
Borrowings	-	57,925	60,932	154,323-
Members' deposits	612,324	990,542	223,788	24,265
Derivative financial instruments	-	22	1,263	3,473
	613,774	1,048,489	285,983	182,061

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Credit risk management - objectives and policies

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

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

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

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

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

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

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

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

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Concentration of loans				
The loan portfolio of the Bank does not include any loan which represents 10% or more of capital.				
The Bank has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:				
Western Australian State government employees	**581,966**	566,056	**581,966**	566,056
Other	**1,808,010**	1,826,591	**1,808,010**	1,826,591
	2,389,976	2,392,647	**2,389,976**	2,392,647
Concentration of deposits				
Western Australian State government employees	**377,549**	339,044	**377,549**	339,044
Other	**1,654,865**	1,511,574	**1,655,638**	1,511,874
	2,032,414	1,850,618	**2,033,187**	1,850,918

Notes to the Financial Statements

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

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

Notes to the Financial Statements

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

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

Notes to the Financial Statements

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

2012	Maximum exposure to credit risk	Credit risk rating Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	$000	$000	$000	$000	$000	$000	$000
Derivatives	(4,578)	(4,578)	-	-	-	-	-
Fully performing loans							
Home loans	1,480,090	944,191	487,304	48,595	-	-	-
Secured overdrafts	47,459	46,436	1,023	-	-	-	-
Commercial loans	47,661	-	4,336	5,125	8,613	16,599	12,988
Personal loans	79,941	-	-	-	79,941	-	-
Unsecured overdrafts and credit cards	16,404	-	-	-	-	16,404	-
Total fully performing loans	1,671,554	990,627	492,662	53,720	88,554	33,002	12,988
Past due loans							
Home loans							
1-7 days	32,495	18,399	10,053	4,042	-	-	-
8-30 days	26,623	14,167	6,339	6,118	-	-	--
31-60 days	4,426	2,375	1,000	1,052	-	-	-
61-89 days	1,021	524	-	497	-	-	-
Total	64,564	35,464	17,391	11,708	-	-	-
Fair value security held (1)	105,301						
Secured overdrafts							
1-7 days	111	111	-	-	-	-	
8-30 days	290	290	-	-	-	-	
31-60 days	30	30	-	-	-	-	
61-89 days	-	-	-	-	-	-	
Total	431	431	-	-	-	-	
Fair value security held (1)	9,364						
Commercial loans							
1-7 days	-	-	-	-	-	-	-
8-30 days	2,344	-	-	-	-	678	1,666
31-89 days	5,883	-	-	-	-	5,883	-
Total	8,227	-	-	-	-	6,560	1,666
Fair value security held (2)	11,115						
Personal loans							
1-7 days	2,413	-	-	-	2,413	-	-
8-30 days	1,228	-	-	-	1,228	-	-
31-89 days	560	-	-	-	560	-	-
Total (3)	4,200	-	-	-	4,200	-	-

Notes to the Financial Statements

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

2012	Maximum exposure to credit risk	Credit risk rating Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	$000	$000	$000	$000	$000	$000	$000
Unsecured overdrafts and credit cards							
1-7 days	5,433	-	-	-	-	5,433	-
8-30 days	164	-	-	-	-	164	-
31-89 days	148	-	-	-	-	148	-
Total	5,745	-	-	-	-	5,745	-
Total past due loans	83,167	35,895	17,391	11,708	4,200	12,305	1,666
Impaired loans							
Home loans							
90 days plus	6,065						
Fair value security held (1)	8,953						
Secured overdrafts							
90 days plus	388						
Fair value security held (1)	1,032						
Commercial loans							
90 days plus	15,040						
Fair value security held (2)	12,323						
Personal loans							
90 days plus	801						
Unsecured overdrafts and credit cards							
90 days plus	216						
Total impaired loans	22,510						
Securitised loans	615,416						
Total loans portfolio	2,392,647						
Other interest bearing receivables							
Interest earning deposits-banks	236,638	236,638	-	-	-	-	-
Interest earning deposits-other ADIs	60,492	60,492	-	-	-	-	-
Accrued interest receivable	2,701	2,701	-	-	-	-	-
Total other interest bearing receivables	299,831	299,831	-	-	-	-	-

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

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

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

Notes to the Financial Statements

30 JUNE 2013

31. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Capital management

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

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

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

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

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

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

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2013	2012	**2013**	2012
Capital Adequacy ratio as reported to APRA at 30 June (unaudited)	**16.34%**	14.89%	**16.88%**	15.31%

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 21 to 74 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 Bank's and Group's financial position as at 30 June 2013 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.

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

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

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

E L Smith

E L SMITH
Director

P.M. Gabb

P M GABB
Director

Perth
26 August 2013

Independent Auditor's Report

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

Report on the financial report

We have audited the accompanying financial report of Police & Nurses Limited (the "Bank"), which comprises the balance sheets as at 30 June 2013, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Bank and the Police & Nurses Limited Group (the consolidated entity). The consolidated entity comprises the Bank and the entities it controlled at years end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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pwc

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

Auditor's opinion

In our opinion

(a) the financial report of Police & Nurses Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Bank's and consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date, and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Pricewaterhouse Coopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
26 August 2013

Police & Nurses Limited
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Tel: 13 25 77

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227 Belmont Avenue

Booragoon
Suite 10 Riseley Corporate Centre
135 Riseley Street

Bunbury
Shop 46, Bunbury Forum Shopping Centre
Sandridge Road

Cannington
Shop 1047A, Westfield Carousel Shopping Centre
1382 Albany Highway

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

Innaloo
Shop 1100, Westfield Innaloo Shopping Centre
Ellen Stirling Boulevard

Joondalup
Shop T18, Lakeside Joondalup Shopping Centre
420 Joondalup Drive

Maddington
Shop 61, Centro Maddington Shopping Centre
Attfield Street

Mandurah
Shop 62, Centro Mandurah Shopping Centre
Mandurah Bypass Road

Midland
Shop T49, Midland Gate Shopping Centre
Great Eastern Highway

Morley
Shop 82, Centro Galleria Shopping Centre
Cnr Old Collier & Walter Roads

Ocean Keys
Shop 56, Ocean Keys Shopping Centre
Ocean Keys Boulevard

Perth
246 Adelaide Terrace

Rockingham
Shop G069, Rockingham City Shopping Centre
Read Street

Success
Shop 229, Cockburn Gateway Shopping Centre
Beeliar Drive

Warwick
Shop 80A, Centro Warwick Shopping Centre
Cnr Erindale & Beach Roads

Whitfords
Shop 158, Westfield Whitford City Shopping Centre
Marmion Avenue

Police & Nurses Limited
ABN 69 087 651 876 Australian Credit Licence/AFSL 240701