P&N Bank Annual Report | 2015

Directory

Directors

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

Chief Executive Officer

A Hadley

Company Secretary

J Handz

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

The financial report was authorised for issue by the Directors on 31 August 2015. 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 2015 can be found here:

http://pnbank.com.au/PDFDocuments/Miscellaneous/Prudential-Standards-AP330-30-June-2015.pdf

Financial results at a glance

	2010	2011	2012	2013	2014*	2015	5 year CAGR**	1 year CAGR**
Total loans under management ($m)	2,274	2,439	2,387	2,386	2,450	2,615	2.84%	6.76%
Total assets under management ($m)	2,654	2,859	2,830	2,845	2,910	3,064	2.92%	5.30%
Deposits ($m)	1,686	1,756	1,851	2,032	2,293	2,387	7.21%	4.14%
Reserves ($m)	196.0	210.8	218.3	232.8	241.0	251.5	5.11%	4.35%
Group NPAT^ ($m)	23.1	12.8	9.2	13.1	8.2	9.3	-16.60%	14.06%
Bank NPAT^ ($m)	14.4	14.3	11.1	12.1	8.9	10.2	-6.68%	14.66%

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

Board Members

Paul Marshall Gabb
Chair

Stephen John Melville
Deputy Chair

Edwin Roy Bradley
Director

Michelle Louise Fyfe
Director

Wayne Gregson
Director

Karl Joseph O'Callaghan
Director

Michael John O'Neill
Director

Eric Laurence Smith
Director

Chair's Report

"The Board and I are very pleased with the progress we have made and the position that the Bank now finds itself in to capitalise on the strong foundations moving forward."

Welcome to our 2015 Annual Report; our third as P&N Bank and my second as Chair.

I am pleased to report that despite continuing economic uncertainty and a highly competitive and crowded market, P&N Bank has enjoyed a year of solid performance and success both internally and externally.

Our principle goals continue to be the growth and prosperity of P&N Bank on behalf of our members, along with our desire to remain a mutual bank. Being owned by you, our members, and not external shareholders, is something that sets us apart from the listed organisations and is a fundamental differentiator that I know many of you feel passionately about. The Board has no intention of moving away from this proven and successful model.

The Year in Review

With a primary focus on P&N members, and under the capable leadership of our CEO, Andrew Hadley, the first phase of our 5 year Strategic Plan has now been successfully completed. This saw our organisation focus heavily on its internal structures and operations, ensuring that our people, processes, products and services are the very best they can be to serve both our current members and members of the future.

One of the most pleasing highlights of the year was being awarded the Roy Morgan Customer Satisfaction 2014 Bank of the Year. For our members and staff alike, this is a wonderful testament to our strong member focus and the genuine relationships that our staff enjoy with so many of you.

We also continued to strongly advocate for our members and the customer-owned banking industry by participating in the Murray Financial Services Inquiry seeking a more level playing field between the majors and smaller banking institutions.

One of our main recommendations was ultimately adopted by APRA (Australia Prudential Regulatory Authority), requiring Australia's major banks to lift the level of capital held against their residential mortgage portfolios from June 2016. This change brings us one step closer to levelling what has been an unfair competitive environment which will, in turn, benefit the consumers of Australia's smaller financial institutions such as P&N.

Board Positions

At our 2014 Annual General Meeting (AGM), we farewelled Mr Alan Philp and shortly thereafter, Ms Liz Manley. Both Alan and Liz were heavily invested and committed to P&N Bank and I would once again like to thank them most sincerely for their dedication to P&N Bank over a good many years and wish them both all the best for the future.

Chair's Report

Final words from the Chair...

An enormous amount of change and improvement has been undertaken behind the scenes at P&N during the past year. The Board and I are very pleased with the progress we have made and the position that the Bank now finds itself in to capitalise on the strong foundations moving forward. Along with the CEO and Senior Leadership team, we remain fully committed to our 5 year Strategic Plan and have much to look forward to. As we now move into the Plan's second horizon, we will begin to look for opportunities to build scale by creating mutually beneficial partnerships. As we shift our focus from the internal environment to the external marketplace, members will start to see positive changes to our product offerings, member service and brand profile in the months ahead, all with the aim of satisfying our existing loyal members and attracting more West Australians to use P&N Bank.

The significant progress that the Bank has achieved over the past year could not have taken place without the strong commitment and dedication of both the Board and the staff.

To my fellow Directors, I thank you for your continued support, counsel and collaboration.

My sincere thanks go to our CEO, Andrew Hadley and his Leadership Team for their energy, dedication, and commitment to P&N Bank.

To the P&N Bank staff, I would like to share the Board's gratitude and sincere appreciation for your loyalty and dedication to our members. You have once again demonstrated that as one team, we can achieve great results for our members, each other and the Bank.

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

We will continue to work hard on your behalf and I trust you will enjoy the benefits of being a P&N Bank member for many years to come.

Paul M Gabb
Chair

CEO's Report

"We also experienced significant growth in our lending portfolio of over 6% which, in this very tough and difficult climate, was another standout achievement for the Bank."

Introduction

I'm pleased to present my second CEO's Report since commencing with P&N Bank in January 2014.

As indicated by the Chair, it is certainly fair to say that a lot of our attention has been deliberately inwardly focused. With many areas for improvements identified and remedial actions instigated, I'm very confident that going forward we have the necessary strong foundation on which to build a sustainable future.

While the WA economy remained fairly subdued, the Bank enjoyed a number of significant highlights and finished the year in a solid position with a net profit after tax of $10.19 million.

Unlike listed entities, P&N Bank exists solely for the benefit of its members, so our success is not measured by profitability alone. Of course, profit will always be an important indicator of performance and is absolutely necessary for growth, but at P&N we must also consider our broader relevance and the value that we deliver to you, our members.

Last year began with a deliberate decision to invest across the business in a host of initiatives aimed at driving enhanced performance. Our internal theme "earning the right to grow" saw the leadership team focus on improving the core business, our capability, our systems and our processes.

At the heart of the activities, a project was initiated to define our brand belief, articulate what it means to be a member of P&N Bank and to ensure that we continue to be a genuine alternative to the major banks.

The public will start to see the results of this work in late 2015 when we initiate a brand refresh and other changes to create better value for our existing members, whilst also appealing to and attracting more new customers. We will start to roll out new and improved products and a new community platform involving much greater engagement and interaction with our membership. The P&N team are all looking forward to establishing a stronger presence in WA, enhancing relationships with our loyal members and continuing to provide the outstanding service levels for which we've become renowned.

Speaking of which, and as mentioned earlier by the Chair, being awarded the national Roy Morgan Customer Satisfaction 2014 Bank of the Year Award was an outstanding highlight for P&N members and staff.

CEO's Report

To outrank all other banks in Australia for customer service is certainly a noteworthy achievement. I received many letters of congratulations from members and it was so pleasing to see staff recognised with this wonderful accolade.

In addition to the Roy Morgan assessment, our own independently conducted market research reaffirmed the positive advocacy message, with the Bank consistently achieving market leading Net Promoter Scores, suggesting we are continuing to do the right thing by our members.

During the course of the year, Standard & Poor's Ratings Services (S&P) assigned the bank a "BBB" (investment grade) long term credit rating reflecting our strong capitalisation and the strategic refresh that commenced last year.

We also experienced significant growth in our lending portfolio of over 6% which, in this very tough and difficult climate, was another standout achievement for the Bank. With our new product offerings to be introduced to the market shortly, we expect this positive growth trajectory to continue.

With horizon one of our Strategic Plan all but complete, the leadership group will now shift attention to identifying opportunities that create scalability and growth. A number of partnership opportunities are under consideration that have the potential to result in a sharing of knowledge, technology and platforms to deliver significant and important economies of scale.

There is a lot happening behind the scenes at P&N Bank for the benefit of our existing members. It's an exciting time for the organisation and I can assure you of my team's unwavering commitment and dedication to ensuring the very best outcomes for you, our members.

P&N Bank Member Glenn Hutchings and family with P&N Bank's Nicola Whittaker at our Whitfords Branch

Financial Results 14/15

Economic headwinds both nationally and at a state level caused financial insecurity for many West Australians which saw an erosion in consumer confidence.

The Bank's net profit after tax was $10.19 million, up from the previous year's $8.89 million, despite restating interest revenue on some personal loans and adopting a prudent approach to provisioning for a specific pre-GFC property finance facility.

The Bank's capital levels decreased 0.91% to 16.09% over the year as we grew the business but remains significantly higher than the minimum required by our regulator, demonstrating our strength as an organisation and our ability to weather difficult times.

Member deposits increased by $95 million (4.1%) to $2.39 billion, as a result of competitive product offerings and members choosing to do more of their banking with us.

Bank non-interest income decreased by $1.4 million (8.4%), mainly as a result of less intra-group dividend income and the removal and reduction of certain financial services fees however this was more than offset by a 9.1% increase in net interest income.

Group non-interest income increased by $31.8 million (139.16%), mainly due to property development sales. During the year, the Group sold its largest property development "The Reef" at Two Rocks as part of a deliberate strategy to exit non-core assets.

Total Group assets increased by $154.2 million (5.3%) to $3.06 billion, largely driven by a $165.7 million (6.8%) increase in loans and advances.

Total Group reserves, including retained earnings, increased by $10.5 million (4.4%) to $251.5 million.

Our membership grew by 1% to 104,455. Commencing in 2015/2016, we will move to change our membership definitions so that we only report on those members who have an active product relationship with the Bank.

CEO's Report

Looking Ahead

The Australian economy remains subdued with low rates of economic growth resulting from the mining construction boom that continues to abate and a slowing Chinese economy.

Consumer confidence is struggling to gain momentum and unemployment nationally is forecast to remain at around 6%. The official cash interest rate remains at a record low of 2.0% and, with minimal change expected to the inflation rate coupled with slow economic growth, we believe that we are unlikely to see rises in the foreseeable future.

The rapid house price growth over the last 12 months in both Sydney and Melbourne has not been seen here in Western Australia. If there is a correction in house prices in the more populous States, it is not forecast to flow through at the same magnitude in WA. Changes that the Australian Prudential Regulation Authority (APRA) have made to restrict investor home lending driven by the rapid growth in investor markets (mainly in Sydney) will also have a level of impact on our business.

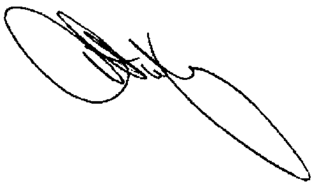
Emerging banking trends are heavily reliant on technology and as P&N considers appropriate investments in social media, mobile and analytics, we will increasingly look to partner with like-minded organisations to allow us to offer superior technological solutions without having to carry the full investment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

Acknowledgements

I would like to thank the Board of Directors and particularly the Chair, Paul Gabb for his counsel and continued support.

I would also like to acknowledge and applaud the passion, commitment and dedication of my leadership team, our managers and staff who continue to work tirelessly for P&N and our members. We have an outstanding and highly engaged team who have created a great culture and enjoy an obvious camaraderie that we will build upon. Thank you one and all.

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



Andrew Hadley
Chief Executive Officer

The Year in Review

Member Services

During the past year, we have been strongly focussed on developing an improved product suite to complement our new member service offering which will be launched at the end of 2015.

P&N Financial Planning

Our Financial Planning business has had another successful year with solid growth in client numbers and funds under advice along with maintaining outstanding member satisfaction results.

P&N Financial Planning has cemented its reputation as one of the leading Financial Planning dealer groups for superannuation and retirement planning advice in the Western Australian market.

P&N Bank Broker Services

P&N's Broker Services business also enjoyed another highly successful year. During the period, we made a number of changes to our broker offering making P&N a more compelling proposition to our broker partners. This included changes to credit policy, process, product offerings, as well as a strong and consistent focus on making it easier for both our broker partners and members to do business with P&N.

Branch Relocations and Refurbishments

P&N continued to re-align the design of its branch network with the refurbishment of the Warwick branch, which was in addition to the four branches refurbished last financial year.

We also re-located our Success and Perth branches, with both new locations reflecting the P&N Bank brand utilising a modern, open and welcoming design.

The branches feature a technology bar, a member lounge area and increased space for service pods, which represents a significant departure from the traditional looking bank branch.

Early in the new financial year, we relocated our Midland branch, as well as continuing to review the current designs of our existing locations.

The Year in Review



New Technology

P&N Bank Website

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

Social Media

Our social media channels continue to prove a popular contact method for our members and a great place to stay informed on all the latest updates, including our community involvement. The 14/15 year saw the number of our Facebook page followers grow by 49%, coupled with an excellent engagement level. We look forward to continuing to grow and develop our social media channels to create a welcoming and informative online community for our members.

Members Claire and Paul Woolsey with P&N Bank's Sean FitzGerald and Wildcats Shawn Redhage and Drake U'u

Proactive Webchat

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

Netlink, MiLink and Phone Banking

These popular banking channels continue to be upgraded to enhance our member banking experience. Members can open new accounts online, activate their new cards via Phone Banking and report lost or stolen cards 24 hours a day.

Mobile Banking App

Since the financial year closed out, we have launched our new Mobile Banking App, offering members an easier banking experience with a PIN login, access to accounts, BPAY payments and Payee payments and will continue to enhance and refine the App in line with member needs going forward.

The Year in Review

Community

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

Perth Wildcats

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

Our third year as the Official Membership Partner of the Perth Wildcats was completed in June 2015. During the season, P&N Bank sponsored the Perth Wildcats Member Day, two exciting game nights at the Perth Arena and both organisations worked together partnering in P&N Bank's successful Bin to Win campaign.

Our Perth Wildcats partnership has proven to be a mutually beneficial collaboration as P&N continued to promote our products and services to the Perth Wildcats members throughout the season and to the general public on game nights. P&N Bank will again sponsor the Perth Wildcats as official Membership Partner during the 2015/16 and 2016/17 seasons.

The Year in Review

RSPCA WA

We again continued to support RSPCA WA as a major sponsor of the 2015 Million Paws Walk. P&N Bank has been a sponsor of Million Paws Walk for over ten years and a number of our staff took part in the walk to raise money for the RSPCA and the prevention of animal cruelty in WA.

Police Excellence Awards

P&N Bank was again proud to be involved with the Police Excellence 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.

Student Scholarships

Each year, P&N Bank conducts a student scholarship program to support four high school students with their studies. Two year 11 students are chosen annually to receive financial assistance and if those winners continue to work hard, their scholarship is renewed in year 12. The 2015 P&N Bank scholarship winners were Daniel Robinson, from Kalamunda Senior High School and Aaron Hamilton, from Perth Modern School. Michael Atkinson, from Servite College was awarded a special Certificate of Merit.

Front (left to right) Daniel Robinson, Michael Atkinson, Aaron Hamilton. Back (left to right) Kynan Behan, Amy Whittle.

Other Key Sponsorships

The Bank also provided sponsorship and support to many other groups in the police, health, education and community sectors.

David Mott, Managing Director Channel Nine Perth; Mr Joshua Preston, Crown Perth; Detective Sergeant Craig Martin; Andrew Hadley, CEO P&N Bank

Executive Team

Andrew Hadley
Chief Executive Officer

Dave Spearman
Chief Financial Officer

Corrine Alexander
Chief Risk Officer

Mark Smith
General Manager
Human Resources

Selina Duncalf
General Manager Strategy
& Business Transformation

Sean FitzGerald
General Manager
Retail Banking &
Distribution

Erik Fenna
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, email, Facebook and Twitter. The Contact Centre manages around 1,000 phone calls per day and its operating hours are from 08.00am to 6.00pm (WST), Monday to Friday and 9.00am to 5.00pm (WST) on Saturdays.

Online Banking

Online banking allows members to access their accounts 24/7 via the internet. It's fast, secure and has an unlimited number of free transactions.

Phone & Mobile Banking

Through our Mobile Banking App or 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 phones.

ATM Network

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

Mobile Lending Managers

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

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 which 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 2015.

Corporate Governance

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

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

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

Directors

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

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

29 years service in state and commonwealth law enforcement. Executive member of Australian Federal Police. 17 years service as a Director of the Bank, Chair of the Bank, Audit Committee member and Remuneration Committee member.

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

Director - Corporate Services, Department of State Development, 21 years service as a Director of the Bank. Has held senior executive positions in both private and government organisations with considerable experience in a range of accounting, financial management and marketing roles. Nominations Committee Chair, Risk Committee Chair to 4 November 2014, Member of Risk Committee, Board Governance Committee and Board Credit Committee.

Edwin Roy BRADLEY MBA BBus GAICD FCPA SF Fin

Consultant with 38 years extensive experience in retail banking, strategic planning, corporate banking and risk management. Bachelor's degree in accounting and business law, post-graduate diploma in economics and financial management plus an MBA. Three years service as a Director of the Bank. Risk Committee member, Audit Committee Chair from 4 November 2014 and Board Credit Committee Chair.

Michelle Louise FYFE APM, GAICD, Masters of Executive Leadership (Policing & Emergency Services)

Assistant Commissioner State Crime WA Police. 31 years service as a Police Officer, six years service as a Director of the Bank. Board Governance Committee member.

Wayne GREGSON APM BA MBA FAICD

Commissioner, Department of Fire & Emergency Services WA, 31 years service as a Police Officer, six years service as a Director of the Bank. Remuneration Committee member.

Report of the Directors

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

CEO & Director of Nursing for Residential Aged Care Facility, 15 years service as a Director of the Bank,
43 years service in the nursing/health profession.
Board Governance Committee member. (Resigned 31 January 2015)

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

Commissioner of WA Police. 42 years service as a Police Officer and 10 years service as a Director of the Bank. Board Governance Committee Chair.

Michael John O'NEILL Dip BAdmin FACID CIM SF Fin

Acting Managing Director for Gindalbie Metals Ltd, over 40 years extensive experience in retail and corporate banking, strategic planning, lending and liquidity control, treasury, and special projects. Diploma in Business Administration, Certificate of Marketing, post graduate diploma in financial management. Two years service as a Director of the Bank. Member of Audit Committee, Risk Committee Chair from 4 November 2014 and Board Credit Committee member.

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

Director, Research Liaison and Innovation Section, Acute Care Division for Dept of Health, 34 years in nursing profession, 39 years as a member of the Bank. Six years service as a Director of the Bank. Risk Committee member. (Term completed 20 October 2014.)

Eric Laurence SMITH FAICD FAMI

Detective Inspector – WA Police. Certificate in Police Studies, Diploma of Policing, Adv Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Graduate Certificate of Business (Leadership), Graduate Diploma of Business (Leadership & Management). 21 years service as a Director of the Bank; 39 years service as a Police Officer. Remuneration Committee Chair.

Each Director holds one member share in the Bank.

Company Secretary

Jennifer Anne HANDZ

Commenced as the Bank's Company Secretary on 5 May 2015.

David Ralph SPEARMAN

Two months service as the Bank's Company Secretary (commenced 5 March 2015 and resigned on 5 May 2015).

Elizabeth Joy LAWTON LLB

15 months service as the Bank's Company Secretary (resigned as Company Secretary on 4 March 2015).

Composition and Meetings of the Board

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

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

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2015 and the number of meetings attended by each Director.

Report of the Directors

Director	Directors' Meetings		Audit Committee Meetings		Board Governance Committee Meetings		Risk Committee Meetings		Remuneration Committee Meetings		Board Credit Committee Meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
P M Gabb***	15	15	4	4	*	*	*	*	5	5	*	*
S J Melville**	15	13	3	3	1	1	6	6	*	*	4	4
E R Bradley	15	14	4	4	*	*	5	5	*	*	4	4
M L Fyfe	15	11	*	*	2	2	*	*	*	*	*	*
W Gregson**	15	13	*	*	*	*	*	*	5	5	*	*
E A Manley	9	6	*	*	1	1	*	*	*	*	*	*
K J O'Callaghan	15	11	*	*	2	1	*	*	*	*	*	*
M J O'Neill	15	14	4	4	*	*	6	6	*	*	4	4
A C Philp	5	5	*	*	*	*	1	1	*	*	*	*
E L Smith	15	14	*	*	*	*	*	*	5	5	*	*

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 Stephen Melville and included two independent attendees.

*** During the year Mr Paul Gabb attended five meetings of the Risk Committee as an observer.

Director Induction Program

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

Directors' Remuneration

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

Audit Committee

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

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

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

Report of the Directors

Risk Committee

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

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

Board Governance Committee

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

This Committee has written terms of reference, which outlines its roles and responsibilities to enable it to assist the Board in relation to maintaining practices in compliance with the requirements of the prudential standards. An appraisal of the Board's performance is conducted annually, with an independent consultant engaged to facilitate the process every third year. The 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.

Remuneration Committee

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

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

Board Credit Committee

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

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

Nominations Committee

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

Group Risk Management

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

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

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

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

Ethical Standards

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

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

Report of the Directors

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

The profit of the Group and the Bank for the financial year after income tax and before minority interest was $9.32m (2014 restated: $8.17m) and $10.19m (2014 restated: $8.89m) respectively. The 2014 year was restated by $1.34m as a result of refunds of interest revenue relating to that period as had been identified from an internal review. In addition, the 2015 Group result includes revenue of $33.6m from the sale of its property development activity at The Reef at Two Rocks.

During the financial year, total assets of the Group increased by $154.2m to $3,064.4m, members' deposits increased by $94.8m to $2,387.5m, and loans and advances increased by $165.7m to $2,615.2m.

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.

Significant Changes

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

Events Subsequent to the End of the Financial Year

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

Environmental Regulation

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

Insurance of Officers

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

Rounding of Amounts

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

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

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

P.M. Gabb

P M GABB
Director

S J MELVILLE
Director

31 August 2015
PERTH WA

Auditor’s Independence Declaration

Auditor’s Independence Declaration

As lead auditor for the audit of Police & Nurses Limited for the year ended 30 June 2015, 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.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
31 August 2015

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Income Statements

YEAR ENDED 30 JUNE 2015	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2015	2014 Restated*	2015	2014 Restated*
		$000	$000	$000	$000
Interest revenue	3	141,220	145,074	155,802	149,550
Interest expense	3	78,413	86,304	91,177	90,313
Net interest income		62,807	58,770	64,625	59,237
Non-interest revenue					
Loan fee revenue		3,564	3,668	3,564	3,668
Financial services fees		3,471	4,217	3,471	4,217
Financial planning fees		3,074	2,850	-	-
Amenity fees		637	988	-	-
Other fee revenue		881	844	580	499
Insurance commissions		3,376	3,713	3,376	3,713
Other commissions		1,617	1,365	1,617	1,365
Revenue from sale of property developments	10	35,147	2,893	-	-
Dividend revenue		409	529	409	1,594
Other income					
Bad debts recovered		504	616	504	616
Net gain on disposal of property, plant and equipment		35	-	29	-
Other income		1,949	1,174	1,316	559
Total non-interest revenue and other income		54,664	22,857	14,866	16,231
Total income		117,471	81,627	79,491	75,468
Bad and doubtful debts expense	8(b)	2,322	1,813	2,322	1,813
Other expenses					
Auditor's remuneration	28	750	662	683	617
Finance costs		454	428	454	428
Depreciation and amortisation		5,607	4,706	5,395	4,433
Fees and commissions		6,721	6,696	6,703	6,644
Property development costs	10	34,719	3,015	-	-
Employee benefits expense		32,754	30,581	30,115	28,197
Information technology costs		5,064	4,194	5,062	4,194
Marketing costs		2,772	4,099	2,737	3,995
Other general and administration costs		8,141	8,239	6,973	7,036
Loss on revaluation of investment property		324	450	-	-
Loss on disposal of plant and equipment		-	335	-	335
Rental - operating leases		5,985	5,823	5,985	5,771
Total expenditure		105,613	71,041	66,429	63,463
Profit before income tax		11,858	10,586	13,062	12,005
Income tax expense	4	2,539	2,416	2,869	3,115
Profit for the year		9,319	8,170	10,193	8,890
(Profit)/loss attributable to non-controlling interests		(40)	(19)	-	-
Profit attributable to members		9,279	8,151	10,193	8,890

The above income statements should be read in conjunction with the accompanying notes.
* See note 32 for details regarding the restatement of interest revenue.

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2015	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2015	2014 Restated*	**2015**	2014 Restated*
		$000	$000	**$000**	$000
Profit for the year		**9,319**	8,170	**10,193**	8,890
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	23(c)	**(254)**	839	**(254)**	839
Changes in the fair value of available for sale financial assets	11(a)	**1,925**	-	**1,925**	-
Income tax relating to this item	4(c)	**(501)**	(252)	**(501)**	(252)
Other comprehensive income for the year, net of tax		**1,170**	587	**1,170**	587
Total comprehensive income for the period		**10,489**	8,757	**11,363**	9,477
Total comprehensive income for the year is attributable to:					
Members of the Bank		**10,449**	8,738	**11,363**	9,477
Non-controlling interests		**40**	19	**-**	-
		10,489	8,757	**11,363**	9,477

The above statements of comprehensive income should be read in conjunction with the accompanying notes.
* See note 32 for details regarding the restatement of interest revenue.

Balance Sheets

AS AT 30 JUNE 2015	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2015	2014 Restated*	**2015**	2014 Restated*
		$000	$000	**$000**	$000
Assets					
Cash and cash equivalents	5	**62,541**	63,879	**21,730**	24,435
Receivables due from other financial institutions	6	**282,341**	292,036	**282,341**	292,036
Trade and other receivables	7	**54,866**	23,684	**15,266**	10,282
Loans and advances	8	**2,615,216**	2,449,544	**2,616,138**	2,450,277
Inventories	10	**2,385**	36,822	**-**	-
Available-for-sale financial assets	11	**7,176**	3,251	**5,113**	3,188
Due from controlled entities	12	**-**	-	**39,876**	39,202
Property, plant and equipment	13	**7,495**	7,215	**7,381**	7,152
Investment properties	14	**22,284**	22,608	**-**	-
Other financial assets	15	**-**	-	**3,083**	3,083
Intangible assets	16	**10,129**	11,168	**8,394**	9,247
Deferred tax assets	17	**-**	-	**2,906**	2,016
Total assets		**3,064,433**	2,910,207	**3,002,228**	2,840,918
Liabilities					
Members' deposits	18	**2,387,495**	2,292,648	**2,388,823**	2,293,736
Trade and other payables	19	**48,614**	42,864	**23,827**	17,985
Derivative financial instruments	9	**2,203**	1,949	**2,203**	1,949
Current tax liabilities		**1,994**	2,524	**1,947**	2,486
Borrowings	20	**361,679**	317,438	**141,246**	-
Due to controlled entities	12	**-**	-	**195,744**	288,416
Provisions	21	**9,674**	8,647	**6,357**	5,628
Deferred tax liabilities	22	**1,312**	3,164	**-**	-
Total liabilities		**2,812,971**	2,669,234	**2,760,147**	2,610,200
Net assets		**251,462**	240,973	**242,081**	230,718
Members' funds					
Reserves	23	**220,572**	219,368	**220,572**	219,368
Retained earnings	23	**30,276**	21,031	**21,509**	11,350
Non-controlling interests		**614**	574	**-**	-
Total members' funds		**251,462**	240,973	**242,081**	230,718

The above balance sheets should be read in conjunction with the accompanying notes.
* See note 32 for details regarding the restatement of interest revenue.

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2015	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2015	2014 Restated*	**2015**	2014 Restated*
		$000	$000	**$000**	$000
Total members' funds (equity) at the beginning of the financial year		**240,973**	232,251	**230,718**	221,241
Changes in the fair value of cash flow hedges, net of tax	23(c)	**(178)**	587	**(178)**	587
Changes in the fair value of available for sale financial assets	23(d)	**1,348**	-	**1,348**	-
Net income recognised directly in members' funds (equity)		**1,170**	587	**1,170**	587
Profit for the year		**9,319**	8,170	**10,193**	8,890
Total comprehensive income for the year		**10,489**	8,757	**11,363**	9,477
Dividends paid to non-controlling interests (17.48 cents per share)	23	**-**	(35)	**-**	-
Total members' funds (equity) at the end of the financial year		**251,462**	240,973	**242,081**	230,718
Total comprehensive income for the year is attributable to:					
Members of the Bank		**10,449**	8,738	**11,363**	9,477
Non-controlling interests		**40**	19	**-**	-
		10,489	8,757	**11,363**	9,477

The above statements of changes in equity should be read in conjunction with the accompanying notes.
* See note 32 for details regarding the restatement of interest revenue.

Cash Flow Statements

YEAR ENDED 30 JUNE 2015	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2015	2014	**2015**	2014
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**130,552**	133,423	**130,552**	133,475
Interest received from investments		**10,788**	13,030	**25,370**	17,454
Commissions and other income received		**27,604**	21,745	**13,921**	14,021
Borrowing costs – members		**(65,955)**	(69,518)	**(65,955)**	(69,560)
Borrowing costs – banks		**(8,704)**	(16,605)	**(25,463)**	(20,572)
Payments to employees and suppliers (inclusive of GST)		**(64,335)**	(71,588)	**(56,995)**	(71,394)
Income tax outflow		**(5,422)**	(2,922)	**(4,798)**	(2,931)
Net cash inflow from operating activities	24(a)	**24,528**	7,565	**16,632**	493
Cash flows from investing activities					
Dividends received		**409**	529	**409**	1,594
(Increase) in loans and advances		**(167,492)**	(64,745)	**(167,681)**	(65,478)
Proceeds from sale of property, plant and equipment		**314**	-	**283**	
Net movement in interest-earning deposits		**9,695**	25,497	**9,695**	25,497
Net movement in other investments		**(2,753)**	(309)	**-**	(300)
Payments for property, plant and equipment		**(2,897)**	(3,253)	**(2,799)**	(3,254)
Payments for intangible assets		**(2,230)**	(3,385)	**(2,230)**	(3,385)
Loans to controlled entities		**-**	-	**(93,347)**	(1,655)
Net cash outflow from investing activities		**(164,954)**	(45,666)	**(255,670)**	(46,981)
Cash flows from financing activities					
Net increase in member's deposits		**94,816**	260,194	**95,056**	260,509
Repayments (to)/from other financial institutions		**44,241**	(186,332)	**141,246**	(201,022)
Member shares issued		**65**	56	**65**	56
Member shares redeemed		**(34)**	(15)	**(34)**	(15)
Net cash inflow from financing activities		**139,088**	73,903	**236,333**	59,528
Net increase/(decrease) in cash and cash equivalents held		**(1,338)**	35,802	**(2,705)**	13,040
Cash and cash equivalents at the beginning of the year		**63,879**	28,077	**24,435**	11,395
Cash and cash equivalents at the end of the year	24(b)	**62,541**	63,879	**21,730**	24,435

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

Notes to the Financial Statements

30 JUNE 2015

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. Refer to note 32 for the impact on profit and net assets of the prior year to enhance comparability and understanding of the financial statements.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2014:

AASB 2012-3 *Offsetting Financial Assets and Financial Liabilities*

AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*

AASB 2013-4 *Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting*

AASB 2014-1 Part A: *Annual improvements 2010-2012 and 2011-2013 cycles*

The adoption of these standards has had no effect to the financial statements.

(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.

30 JUNE 2015

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

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

(ii) Joint arrangements

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

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

(c) Loan provisioning

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

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

(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.

30 JUNE 2015

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

(f) Investment property

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

(g) Investments and other financial assets

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

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

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

(h) Intangible assets

(i) *Goodwill*

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

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.

Notes to the Financial Statements

30 JUNE 2015

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

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each 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 2015

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 high quality corporate 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.

(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 preacquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(g).

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

Notes to the Financial Statements

30 JUNE 2015

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 2015

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

(r) Fair value estimation

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

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

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

(s) Borrowings

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

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

(t) Borrowing costs

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

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

(u) Loan securitisation

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

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

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

(v) Other payables

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

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

Notes to the Financial Statements

30 JUNE 2015

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

(w) Loan origination fees and transaction costs

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

(x) Other receivables

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

(y) Goods and Services Tax (GST)

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

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

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

(z) Business combinations

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

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

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

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

Notes to the Financial Statements

30 JUNE 2015

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

(aa) Leases

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

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

(bb) Provisions

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

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

(cc) Rounding of amounts

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

(dd) New accounting standards

AASB 9 - Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. AASB 9 is not mandatory until 1 July 2018 for the Group.

AASB 15 - Revenue From Contracts with Customers contains new requirements for the recognition of revenue and additional disclosures. This will replace AASB 118 and AASB 111 and is not mandatory until 1 July 2017 for the Group.

The potential financial impact of the above to the Group is not yet determined and is currently being assessed.

Notes to the Financial Statements

30 JUNE 2015

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 2015

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	**2015**			2014 Restated*		
	Average balance $000	**Interest $000**	**Average interest rate %**	Average balance $000	Interest $000	Average interest rate %
Interest earning assets						
Deposits with other banks/ADIs	**333,331**	**10,788**	**3.24%**	402,432	13,030	3.24%
Loans and advances	**2,545,474**	**130,432**	**5.12%**	2,426,212	132,044	5.44%
	2,878,805	**141,220**	**4.91%**	2,828,644	145,074	5.13%
Interest bearing liabilities						
Members' deposits	**2,218,526**	**65,714**	**2.96%**	2,200,744	69,699	3.17%
Borrowings from other banks/ADIs	**427,499**	**12,699**	**2.97%**	424,271	16,605	3.91%
	2,646,025	**78,413**	**2.96%**	2,625,015	86,304	3.29%

	2015	2014
Analysis of net interest income		
Net interest income	**62,807**	58,770
Average interest-earning assets	**2,878,805**	2,828,644
Net interest margin (1)	**2.18%**	2.08%
Spread (2)	**1.94%**	1.84%

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

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

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014 Restated*	**2015**	2014 Restated*
	$000	$000	**$000**	$000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**5,376**	4,117	**4,900**	3,859
Deferred tax	**(2,353)**	(1,080)	**(1,391)**	(352)
Under / (over) provided for current tax in prior years	**(484)**	(621)	**(640)**	(392)
Income tax expense	**2,539**	2,416	**2,869**	3,115
Deferred income tax expense / (revenue) included in income tax expense comprises:				
(Increase) / decrease in deferred tax assets (note 17)	**148**	(918)	**768**	(740)
Increase / (decrease) in deferred tax liabilities (note 22)	**(2,501)**	(162)	**(2,159)**	388
	(2,353)	(1,080)	**(1,391)**	(352)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**11,858**	10,586	**13,062**	12,005
Prima facie income tax calculated at 30% (2014: 30%)	**3,557**	3,176	**3,920**	3,601
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Tax offset for franked dividends	**(123)**	(255)	**(123)**	(254)
Sundry items	**2**	116	**7**	160
	3,436	3,037	**3,804**	3,507
Under / (over) provision in previous year, relating to:				
Research and development tax incentive	**(197)**	(262)	**(197)**	(262)
Other	**(700)**	(359)	**(738)**	(130)
Income tax expense	**2,539**	2,416	**2,869**	3,115
(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)	**501**	251	**501**	251
(d) Franking credits				
Franking credits based on a tax rate of 30%	**70,888**	65,291	**70,787**	65,241

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.

(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).

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	**1,239**	1,174	**1,238**	1,153
Cash and deposits at call with banks	**53,975**	58,139	**13,165**	18,716
Cash and deposits at call with other ADIs	**7,327**	4,566	**7,327**	4,566
	62,541	63,879	**21,730**	24,435
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits - banks	**275,380**	250,308	**275,380**	250,308
Interest earning deposits - other ADIs	**6,961**	41,728	**6,961**	41,728
	282,341	292,036	**282,341**	292,036
The deposits have an effective interest rate of 2.0% to 5.81% (2014: 2.5% to 5.03%).				

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

7. TRADE AND OTHER RECEIVABLES				
Interest receivable	**1,115**	1,234	**1,115**	1,234
Prepayments	**1,853**	1,882	**1,853**	1,872
Amenities and reserve fund fees	**9,933**	9,415	**-**	-
Member transaction clearing	**12,578**	7,545	**12,298**	7,176
Land and property development debtors	**29,387**	3,608	**-**	-
	54,866	23,684	**15,266**	10,282

Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists. Land and property development debtors includes $25,792,000 owed from Pindan Capital Two Rocks Pty Ltd as trustee for the Pindan Capital Two Rocks Trust. This amount is payable on future lot sales with any remaining balance payable on 15th June 2018.

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
8. LOANS AND ADVANCES				
Revolving credit	**99,015**	89,073	**99,937**	89,806
Term loans	**2,517,270**	2,359,230	**2,517,270**	2,359,230
Related parties (a)	**2,708**	4,261	**2,708**	4,261
	2,618,993	2,452,564	**2,619,915**	2,453,297
Provision for impairment (b)	**(3,777)**	(3,020)	**(3,777)**	(3,020)
Net loans and advances	**2,615,216**	2,449,544	**2,616,138**	2,450,277

All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
The Bank securitises mortgage loans via securitisation programs which it manages and from which it derives management fee income. As at 30 June 2015, securitised loans under management by the Bank amounted to $554,008,778 (2014: $646,804,639) which are included in both the revolving credit and term loans above.

This includes $64,154,000 (2014: $85,887,250) of loans securitised to the Pinnacle Series Trust 2010-T1, $150,399,342 (2014: $216,947,471) of loans securitised to the Pinnacle Series Trust 2013 – T1, and $339,455,436 (2014: $343,969,918) of loans securitised to the Pinnacle Series Trust 2014 – SST.

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

Maturity period at 30 June 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
Not later than one year	**19,391**	174,415	**18,658**	173,682
One year to five years	**96,761**	112,151	**97,494**	112,884
Over five years	**2,499,064**	2,162,978	**2,499,986**	2,163,711
	2,615,216	2,449,544	**2,616,138**	2,450,277

The maturity tables are based on contractual terms.

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
(a) Aggregate amounts receivable from related parties				
Key management personnel (as defined in note 27) and their related parties	**2,708**	4,261	**2,708**	4,261
	2,708	4,261	**2,708**	4,261
(b) Provision for impairment				
Specific provision				
Opening balance	**3,020**	3,983	**3,020**	3,983
Bad debts previously provided for written off	**(1,565)**	(2,776)	**(1,565)**	(2,776)
Bad and doubtful debts provided for during the year	**2,322**	1,813	**2,322**	1,813
Closing balance	**3,777**	3,020	**3,777**	3,020
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**388**	522	**388**	522
Personal loans	**718**	1,103	**718**	1,103
Home loans	**97**	275	**97**	275
Property Finance	**362**	876	**362**	876
	1,565	2,776	**1,565**	2,776

9. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps - cash flow hedges (liabilities)	**2,203**	1,949	**2,203**	1,949

(a) Terms and conditions

At balance sheet date, the Bank has interest rate swaps with a notional amount of $222 million (2014: $274 million), on which it pays 2.33% to 4.13% (2014: 2.73% to 5.45%) interest and receives Bank Bill swap rates calculated on the notional amount.

The swaps are used to protect the Bank from movements in interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance sheet date. The swaps expire between August 2015 and July 2019 and the related cash flows are expected to occur in the following periods:

Less than one year	**532**	843	**532**	843
More than one year but less than two years	**1,295**	532	**1,295**	532
More than two years but less than five years	**376**	574	**376**	574
	2,203	1,949	**2,203**	1,949

(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 2015	CONSOLIDATED			
10. INVENTORIES	**Land acquisition costs**	**Holding costs**	**Development costs**	**Total**
Land held for sale	**$000**	**$000**	**$000**	**$000**
2015				
Group inventory	-	-	-	-
Share of joint venture inventory	**978**	-	**1,407**	**2,385**
	978	-	**1,407**	**2,385**
2014				
Group inventory	29,358	2,313	2,266	33,937
Share of joint venture inventory	1,100	-	1,785	2,885
	30,458	2,313	4,051	36,822

On 4th June 2015 all group inventory was sold to Pindan Capital Two Rocks Pty Ltd as trustee for the Pindan Capital Two Rocks Trust. P&N Landreach Pty Ltd is owed an amount of $29,000,000 for deferred consideration. The present value is included in trade and other receivables (note 7).

The share of joint venture inventory is composed of “The Enclave” at Eagle Bay

1. During the year 2 lots (2014: 4 lots) were sold and settled.
2. Titles for the remaining 16 unsold lots are currently held.
3. The share of the joint venture held is 33.33%.

Approximately $720,000 of inventory is expected to be recovered in less than 12 months after the balance sheet date.

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
Revenue from sale of property developments	**35,147**	2,893	-	-
Cost of goods sold	**34,437**	2,446	-	-
Other property expenses	**282**	569	-	-
Property development costs	**34,719**	3,015	-	-

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
11. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in Cuscal (a)	**4,813**	2,888	**4,813**	2,888
Investment in Pindan Capital Two Rocks Trust (b)	**2,000**	-	**-**	-
Investment in Super Myway Pty Ltd (c)	**300**	300	**300**	300
Investment in “Heron Park” at Harrisdale (d)	**63**	63	**-**	-
	7,176	3,251	**5,113**	3,188

(a) Unlisted securities – investment in Cuscal

Cuscal is an unlisted public company. The only information it provides are annual audited financial statements and unaudited special purpose half year financial statements. Under Cuscal’s constitution there are no limitations as to who the Bank may sell its shares to, however, Cuscal is primarily owned by mutual ADIs and trading in its shares is very limited and information on such trading is not publicly available. The Bank has determined the fair value of its shares in Cuscal based on the latest audited financial statements and dividend yields of similar investments. The prior year fair value approximated the cost of the shares.

(b) Pindan Capital Two Rocks Trust

P&N Landreach Pty Ltd owns 2,000,000 units in the Pindan Capital Two Rocks Trust undertaking a development at Two Rocks.

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

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

(d) “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 $1,326,789 (2014: $2,326,389) interest free loan to the syndicate with no commitment to advance any further amounts. This loan is included in trade and other receivables (note 7).

The first stage of the development construction has been completed, with titles for 975 lots now received. Further construction work is being undertaken in a staged manner.

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

	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
12. DUE FROM / TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	**-**	-	**34,943**	32,622
Deferred securitisation receivable	**-**	-	**4,933**	6,580
	-	-	**39,876**	39,202
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	**-**	-	**195,744**	288,416
	-	-	**195,744**	288,416

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

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
13. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	**12,340**	9,630	**12,340**	9,630
Provision for amortisation	**(7,471)**	(5,150)	**(7,471)**	(5,150)
	4,869	4,480	**4,869**	4,480
Plant and equipment				
At cost	**10,082**	11,688	**9,888**	11,504
Provision for depreciation	**(7,456)**	(8,953)	**(7,376)**	(8,832)
	2,626	2,735	**2,512**	2,672
Total property, plant and equipment	**7,495**	7,215	**7,381**	7,152

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 2013	3,748	2,594	6,342	3,748	2,429	6,177
Additions	2,065	1,188	3,253	2,065	1,189	3,254
Disposals	(120)	(218)	(338)	(120)	(145)	(265)
Depreciation expense	(1,213)	(829)	(2,042)	(1,213)	(801)	(2,014)
Carrying amount at 30 June 2014	4,480	2,735	7,215	4,480	2,672	7,152
Carrying amount at 1 July 2014	**4,480**	**2,735**	**7,215**	**4,480**	**2,672**	**7,152**
Additions	**2,039**	**858**	**2,897**	**2,039**	**760**	**2,799**
Disposals	**(118)**	**(161)**	**(279)**	**(118)**	**(136)**	**(254)**
Depreciation expense	**(1,532)**	**(806)**	**(2,338)**	**(1,532)**	**(784)**	**(2,316)**
Carrying amount at 30 June 2015	**4,869**	**2,625**	**7,495**	**4,869**	**2,512**	**7,381**

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

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
14. INVESTMENT PROPERTIES				
At fair value				
Opening balance	**22,608**	22,985	**-**	-
Net transfer to inventory	**-**	73	**-**	-
Net loss from fair value adjustment	**(324)**	(450)	**-**	-
Closing balance	**22,284**	22,608	**-**	-

(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	**380**	615	**-**	-
Direct operating expenses from property that generated other income	**(57)**	(64)	**-**	-
Net loss on revaluation of investment property	**(324)**	(450)	**-**	-
	(1)	101	**-**	-

(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 2015 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.

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 31 years (2014: 32 years). The discounted cash flows are based on the following assumptions:

(i) unit values are based on a weighted average of $419,000 (2014: $415,000) per unit;

(ii) escalation factor of 4% in 2016, 5% in 2017 and 6% for all subsequent years (2014: 6%) attributable to the unit values which is the market determined longterm growth rate for residential property, adjusted to reflect market conditions;

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

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

(v) discount rate of 13.5% (2014: 13.5%) per annum pre-tax; and

(vi) current prevailing economic conditions.

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.

30 JUNE 2015

14. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

Representation of valuation in financial statements

The Directors' valuation resulted in a net value of $9.6 million (2014: $9.7 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2015	2014
	$000	$000
Net value of property transferred from property, plant and equipment	**13,815**	13,815
Transfer (to)/from inventories	**35**	35
Net gain from fair value adjustment	**8,434**	8,758
Investment property asset	**22,284**	22,608
Included in property plant and equipment	**55**	55
Add: accrued amenities fees (Other receivables)	**7,206**	6,955
Less: lease loan sum liability (note 19)	**(19,937)**	(19,937)
	9,608	9,681

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

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$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
	2015	2014	**2015**	**2015**	2014	2014
	%	%	**$**	**$**	$	$
Members Holding Company Pty Ltd	**100**	100	**400,002**	**-**	400,002	-
Advance Settlements Coy Pty Ltd	**100**	100	**1**	**19,999**	1	19,999
P&N Landreach Pty Ltd	**100**	100	**1,900**	**-**	1,900	-
Essential Service Homes Pty Ltd	**100**	100	**10,000**	**-**	10,000	-
P&N Management Pty Ltd	**100**	100	**60,000**	**-**	60,000	-
National Home Loans Pty Ltd	**100**	100	**61,500**	**-**	61,500	-
Jacaranda Gardens Retirement Village	**100**	100	**-**	**-**	-	-
Police & Nurses Financial Planning Pty Ltd	**65**	65	**2,550,080**	**-**	2,550,080	-
Pinnacle RMBS Warehouse Trust No 1	**100**	100	**-**	**-**	-	-
Pinnacle Series Trust 2010 - T1	**100**	100	**-**	**-**	-	-
Pinnacle Series Trust 2013 - T1	**100**	100	**-**	**-**	-	-
Pinnacle Series Trust 2014 - SST	**100**	100	**-**	**-**	-	-
			3,083,483	**19,999**	3,083,483	19,999

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
16. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
	1,572	1,572	**-**	-
Computer software (ii)				
At cost	**28,937**	26,046	**28,937**	26,046
Accumulated amortisation	**(20,543)**	(16,799)	**(20,543)**	(16,799)
	8,394	9,247	**8,394**	9,247
Client list (iii)				
At cost	**1,861**	1,861	**-**	-
Accumulated amortisation	**(1,698)**	(1,512)	**-**	-
	163	349	**-**	-
Total intangible assets	**10,129**	11,168	**8,394**	9,247
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	**9,247**	8,470	**9,247**	8,470
Additions	**2,230**	3,385	**2,230**	3,385
Disposals	**-**	(130)	**-**	(130)
Amortisation charge *	**(3,083)**	(2,478)	**(3,083)**	(2,478)
Closing carrying amount	**8,394**	9,247	**8,394**	9,247
(iii) Client list				
Opening carrying amount	**349**	535	**-**	-
Amortisation charge *	**(186)**	(186)	**-**	-
Closing carrying amount	**163**	349	**-**	-

* 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 13.5% (2014: 13.0%) and a multiple of recurring income of three (2014: 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 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014 Restated*	**2015**	2014 Restated*
	$000	$000	**$000**	$000
17. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,133**	908	**1,133**	907
Deferred income	**477**	-	**-**	-
Intangible assets – client list	**509**	454	**-**	-
Business related costs	**43**	47	**24**	28
Provisions	**2,832**	2,444	**1,908**	1,594
Depreciation	**116**	1,445	**79**	1,393
Accruals	**203**	163	**94**	84
	5,313	5,461	**3,238**	4,006
Amounts recognised directly in equity				
Cash flow hedges	**661**	584	**661**	584
	5,974	6,045	**3,899**	4,590
Offset to/from deferred tax liabilities (note 22)	**(5,974)**	(6,045)	**(993)**	(2,574)
Net deferred tax assets	**-**	-	**2,906**	2,016
Movements:				
Opening balance	**6,045**	5,378	**4,590**	4,101
(Charged) / credited to the income statement (note 4)	**(148)**	918	**(768)**	740
(Charged) / credited to equity (note 4)	**77**	(251)	**77**	(251)
Closing balance	**5,974**	6,045	**3,899**	4,590
18. MEMBERS' DEPOSITS				
Call deposits	**1,023,743**	955,713	**1,024,571**	956,116
Term deposits	**1,359,722**	1,329,604	**1,360,222**	1,330,289
Withdrawable shares (a)	**760**	729	**760**	729
Related parties (b)	**3,270**	6,602	**3,270**	6,602
	2,387,495	2,292,648	**2,388,823**	2,293,736

Interest is calculated on a daily balance outstanding.

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

Notes to the Financial Statements

30 JUNE 2015

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 78,693 (2014: 75,710) member shares on issue at the end of the year:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
Number of $10 shares	**73,033**	69,884	**73,033**	69,884
Number of $6 shares	**4,929**	5,071	**4,929**	5,071
Number of $0 shares	**731**	755	**731**	755
	78,693	75,710	**78,693**	75,710
Movements:				
Opening number of shares	**75,710**	71,752	**75,710**	71,752
New shares issued during the year	**6,352**	7,177	**6,352**	7,177
Resignations during the year	**(3,369)**	(3,219)	**(3,369)**	(3,219)
Closing balance	**78,693**	75,710	**78,693**	75,710

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

	2015 $000	2014 Restated* $000	**2015 $000**	2014 Restated* $000
19. TRADE AND OTHER PAYABLES				
Accrued interest payable	**12,122**	12,364	**12,122**	12,364
Lease loan sums (note 14)	**19,937**	19,937	**-**	-
Other payables	**16,555**	10,563	**11,705**	5,621
	48,614	42,864	**23,827**	17,985

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

20. BORROWINGS				
Secured				
Loans from other ADIs (a)	**237**	6,943	**-**	-
Notes payable	**220,196**	310,495	**-**	-
Unsecured	**141,246**	-	**141,246**	-
	361,679	317,438	**141,246**	-

(a) Interest charged on loans from other ADIs is at the financial institution's floating rate.

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

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014 Restated*	**2015**	2014 Restated*
	$000	$000	**$000**	$000
21. PROVISIONS				
Employee benefits (a)	**3,605**	3,392	**3,357**	3,191
Make good (b)	**276**	314	**276**	314
Refurbishment	**2,724**	2,123	**2,724**	2,123
Refurbishment (c)	**3,069**	2,818	**-**	-
	9,674	8,647	**6,357**	5,628
(a) Provision for employee benefits				
Opening balance	**3,392**	3,110	**3,191**	2,927
Employee benefits previously provided for paid out	**(3,028)**	(2,731)	**(2,813)**	(2,512)
Employee benefits provided for during the year	**3,241**	3,013	**2,979**	2,776
Closing balance	**3,605**	3,392	**3,357**	3,191

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

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

Within the next 12 months	**2,591**	2,627	**2,343**	2,426
Between one and two years	**493**	152	**493**	152
Later than two years	**521**	613	**521**	613
	3,605	3,392	**3,357**	3,191

(b) Provision for make good				
Opening balance	**314**	247	**314**	247
Adjustment to the provision	**(86)**	-	**(86)**	-
Make good provided for during the year	**48**	67	**48**	67
Closing balance	**276**	314	**276**	314

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

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

Between one and two years	**-**	86	**-**	86
Between two and three years	**-**	-	**-**	-
Between four and five years	**276**	228	**276**	228
	276	314	**276**	314

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014 Restated*	2015	2014 Restated*
	$000	$000	$000	$000
21 PROVISIONS (cont'd)				
(c) Provision for refurbishment				
Opening balance	**2,818**	2,432	**-**	-
Refurbishment previously provided for expensed	**(18)**	(18)	**-**	-
Refurbishment provided for during the year	**269**	404	**-**	-
Closing balance	**3,069**	2,818	**-**	-

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.

	2015	2014 Restated*	2015	2014 Restated*
	$000	$000	$000	$000
22. DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**2,969**	2,824	**-**	-
Intangible assets - software	**415**	2,574	**415**	2,574
Inventory	**77**	541	**-**	-
Fair value adjustment to investment property	**2,530**	2,628	**-**	-
Capital works	**717**	642	**-**	-
	6,708	9,209	**415**	2,574
Amounts recognised directly in equity				
Available for sale financial assets	**578**	-	**578**	-
	7,286	9,209	**993**	2,574
Offset to / from deferred tax liabilities (note 17)	**(5,974)**	(6,045)	**(993)**	(2,574)
Net deferred tax liabilities	**1,312**	3,164	**-**	-
Movements:				
Opening balance	**9,209**	9,371	**2,574**	2,186
Charged/(credited) to the income statement (note 4)	**(2,501)**	(162)	**(2,159)**	388
Charged to equity (note 4)	**578**	-	**578**	
Closing balance	**7,286**	9,209	**993**	2,574

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015 **$000**	2014 Restated* $000	**2015** **$000**	2014 Restated* $000
23. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**220,000**	220,000	**220,000**	220,000
Share capital reserve (b)	**766**	732	**766**	732
Cash flow hedges (c)	**(1,542)**	(1,364)	**(1,542)**	(1,364)
Available for sale financial assets reserve (d)	**1,348**	-	**1,348**	-
	220,572	219,368	**220,572**	219,368
Retained earnings				
Balance at beginning of year	**21,031**	27,930	**11,350**	17,475
Profit for the year	**9,279**	8,151	**10,193**	8,890
Total available for appropriation	**30,310**	36,081	**21,543**	26,365
Aggregate of amounts transferred to reserves	**(34)**	(15,015)	**(34)**	(15,015)
Dividends paid to non-controlling interests	**-**	(35)	**-**	-
Balance at end of year	**30,276**	21,031	**21,509**	11,350

(a) General reserve				
Balance at beginning of year	**220,000**	205,000	**220,000**	205,000
Transfer from retained profits	**-**	15,000	**-**	15,000
Balance at end of year	**220,000**	220,000	**220,000**	220,000

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	**732**	717	**732**	717
Transfer from retained profits	**34**	15	**34**	15
Balance at end of year	**766**	732	**766**	732

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.

Notes to the Financial Statements

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014 Restated*	**2015**	2014 Restated*
	$000	$000	**$000**	$000
23 RESERVES AND RETAINED EARNINGS (cont'd)				
(c) Cash flow hedges				
Balance at beginning of year	**(1,364)**	(1,951)	**(1,364)**	(1,951)
Revaluation	**(254)**	839	**(254)**	839
Income tax on revaluation	**76**	(252)	**76**	(252)
Balance at end of year	**(1,542)**	(1,364)	**(1,542)**	(1,364)

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.

(d) Available for sale financial assets reserve				
Balance at beginning of year	**-**	-	**-**	-
Revaluation	**1,925**	-	**1,925**	-
Income tax on revaluation	**(577)**	-	**(577)**	-
Balance at end of year	**1,348**	-	**1,348**	-

Nature and purpose of available for sale financial assets reserve

The reserve is used to record gains resulting from increases in the fair value of available for sale financial assets (note 11(a)).

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014 Restated*	2015	2014 Restated*
	$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	**9,319**	8,170	**10,193**	8,890
Depreciation and amortisation	**5,607**	4,706	**5,395**	4,433
Bad and doubtful debts	**2,322**	1,813	**2,322**	1,813
Bad debts recovered	**(504)**	(616)	**(504)**	(616)
Loss/(gain) on disposal of property, plant and equipment	**(35)**	335	**(29)**	335
Dividend received	**(409)**	(529)	**(409)**	(1,594)
Increase in provisions	**1,151**	2,080	**2,853**	1,672
Decrease in loan interest receivable	**119**	35	**119**	35
Increase/(decrease) in other receivables	**(31,182)**	8,138	**(4,984)**	8,006
Decrease in inventory	**34,438**	2,177	**-**	-
Increase / (decrease) in member interest payable	**(242)**	181	**(242)**	181
Increaese/(decrease) in accrued expenses and trade andvother payables	**6,611**	(18,898)	**3,966**	(22,870)
Increase / (decrease) in current tax liabilities	**(530)**	574	**(539)**	536
Decrease in deferred tax asset	**(2,342)**	(627)	**(2,294)**	(325)
Increase in deferred tax liabilities	**(147)**	(202)	**768**	224
Decrease/(Increase) in sundry debtors and prepayments	**28**	(222)	**17**	(227)
Fair value adjustment to investment property	**324**	450	**-**	-
Net cash inflow from operating activities	**24,528**	7,565	**16,632**	493
(b) Reconciliation of cash				
Cash balance comprises:				
– Cash	**62,541**	63,879	**21,730**	24,435
Closing cash balance	**62,541**	63,879	**21,730**	24,435

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
25. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance sheet date but not provided for				
– payable not later than one year	**2,696**	1,959	**2,696**	1,959
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than one year	**6,444**	6,208	**6,444**	6,208
– later than one and not later than five years	**17,665**	21,930	**17,665**	21,930
– later than five years	**539**	638	**539**	638
Aggregate lease expenditure contracted for at balance sheet date	**24,648**	28,776	**24,648**	28,776

Significant leasing arrangements

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

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
26. FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
Credit related commitments				
Approved but undrawn loans and credit limits	**338,910**	322,728	**338,910**	322,728

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:

- derivatives guarantee facility: $3,000,000 ($663,366 used as at 30 June 2015)
- overdraft: $5,000,000 (unused as at 30 June 2015)

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. 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.

On 30 June 2015, notice was given to CUFSS by the Bank to terminate its participation in the Industry Support Contract with a termination date of 1 July 2016.

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$	$	**$**	$
27. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,615,231**	3,379,709	**2,615,231**	3,379,709
Short-term employee benefits	**2,439,445**	2,501,838	**2,439,445**	2,501,838
Post-employment benefits	**175,786**	149,280	**175,786**	149,280
Termination benefits	**-**	728,591	**-**	728,591
	2,615,231	3,379,709	**2,615,231**	3,379,709

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

Included in the total key management personnel remuneration is Directors' remuneration (including superannuation contributions) of $510,000 (2014: $510,000).

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 2015 amounted to $1,883,031 (2014: $2,600,799).

During the year loan advances amounted to $2,263,210 (2014: $2,296,398) and repayments amounted to $1,848,629 (2014: $2,212,800). Interest on these loans amounted to $53,913 (2014: $152,808).

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 0.31% 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 2015 amounted to $825,189 (2014: $1,660,399). During the year loan advances amounted to $1,217,571 (2014: Nil) and repayments amounted to $2,103,863 (2014: $288,471).

Interest on these loans amounted to $50,348 (2014: $10,366). All of these loans are secured, except loan balances of $24,927 (2014: $23,567).

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 2015 amounted to $3,269,593 (2014: $6,601,500).

During the year additional deposits amounted to $7,494,955 (2014: $9,349,646) and withdrawals amounted to $7,539,095 (2014: $9,909,308). Interest on these deposits amounted to $59,951 (2014: $130,704).

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

30 JUNE 2015	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$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	**7**	-	**7**	-
relating to current year	**147**	135	**147**	135
– other assurance services	**121**	93	**83**	75
	275	228	**237**	210
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
– taxation advice	**143**	119	**113**	96
– consulting	**310**	271	**310**	271
– other	**22**	44	**23**	40
	475	434	**446**	407
Total auditor's remuneration	**750**	662	**683**	617

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29. INVESTMENTS IN JOINT ARRANGEMENTS

Eagle Bay joint venture

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

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

	CONSOLIDATED	
	2015	2014
	$000	$000
Cash and cash equivalents	**20**	21
Trade and other receivables	**5**	-
Inventories (land held for sale)	**2,309**	2,597
Share of assets employed in joint operations	**2,334**	2,618
Other liabilities	**306**	329
Borrowings	**237**	627
Share of liabilities employed in joint operations	**543**	956

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

	CONSOLIDATED	
	2015	2014
	$000	$000
Revenue from sale of property developments	**422**	886
Share of income in joint operations	**422**	886
Property development costs	**311**	623
Other expenses	**207**	248
Share of expenses in joint operations	**518**	871

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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	
	2015	2014
	$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	**16,462**	6,984
Interest expense	**29,708**	24,119
Dividend revenue	**-**	1,065
Aggregate amounts receivable from entities in the wholly-owned Group at balance sheet date	**34,943**	32,622

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 Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board on its activities.

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

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

(a) Market risk management - objectives and policies

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

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

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

Significant policies and processes for managing risk include:

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

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

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

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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**
2015					
Cash and cash equivalents	**62,541**	**626**	**-**	**(571)**	**-**
Due from financial institutions	**282,341**	**2,830**	**-**	**(2,830)**	**-**
Loans (i)	**2,615,216**	**21,854**	**-**	**(21,854)**	**-**
Derivatives	**(2,203)**	**-**	**174**	**-**	**(174)**
Members' deposits (ii)	**(2,387,495)**	**(10,286)**	**-**	**10,286**	**-**
Borrowings	**(361,679)**	**(3,564)**	**-**	**3,564**	**-**
Total increase / (decrease)	**208,721**	**11,460**	**174**	**11,405)**	**(174)**
2014					
Cash and cash equivalents	63,879	627	-	(604)	-
Due from financial institutions	292,036	2,920	-	(2,920)	-
Loans (i)	2,449,544	21,529	-	(21,529)	-
Derivatives	(1,949)	-	478	-	(478)
Members' deposits (ii)	(2,292,648)	(9,630)	-	9,630	-
Borrowings	(317,438)	(3,170)	-	3,170	-
Total increase / (decrease)	193,424	12,276	478	(12,253)	(478)

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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
2015					
Cash and cash equivalents	**21,730**	**217**	-	**(162)**	-
Due from financial institutions	**282,341**	**2,477**	-	**(2,477)**	-
Loans (i)	**2,616,138**	**21,854**	-	**(21,854)**	-
Derivatives	**(2,203)**	-	**174**	-	**(174)**
Members' deposits (ii)	**(2,388,823)**	**(10,286)**	-	**10,286**	-
Borrowings	**(141,246)**	**(1,412)**	-	**1,412**	-
Due to controlled entities	**(195,744)**	**(1,957)**	-	**1,957**	-
Total increase / (decrease)	**192,193**	**10,893**	**174**	**(10,838)**	**(174)**
2014					
Cash and cash equivalents	24,435	233	-	(210)	-
Due from financial institutions	292,036	2,920	-	(2,920)	-
Loans (i)	2,450,277	21,529	-	(21,529)	-
Derivatives	(1,949)	-	478	-	(478)
Members' deposits (ii)	(2,293,736)	(9,630)	-	9,630	-
Borrowings	-	-	-	-	-
Due to controlled entities	(288,416)	-	-	-	-
Total increase / (decrease)	182,647	15,052	478	(15,029)	(478)

(i) 1% shift applied to the value of variable loans held at year end calculated on $2,185,541,650 (2014: $2,126,853,770). The remaining balance represents fixed rate loans for 2014/2015, 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 $1,028,604,000 (2014: $943,393,723). The remaining balance represents fixed rate deposits for 2014/2015, which are not subject to interest rate movements for the period.

30 JUNE 2015

31. FINANCIAL RISK MANAGEMENT (cont'd)

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Fair value estimation - interest rate swaps (liability)	**2,203**	1,949	**2,203**	1,949

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

(b) Liquidity risk management - objectives and policies

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

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

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

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

Financing arrangements

The Bank did not renew its Cuscal standby facility in 2015 (2014: $15 million).

Liquidity support is available in the form of $10 million (2014: $10 million) of overdraft facilities, of which $5 million (2014: $5 million, undrawn) is with Cuscal and $5 million intra day overdraft facility (2014: $5 million, undrawn) is with Bankwest.

Both these facilities were undrawn as at 30 June 2015.

The Bank also utilises Bridges funding facilities via IOOF. This facility has a limit of $40 million (2014: $40 million). This facility was undrawn as at 30 June 2015.

Also maintained by the Bank are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of $75 million (2014: $300 million), of which $75 million (2014: $300 million) was available at 30 June 2015;
- a term securitisation facility under the Pinnacle Series Trust 2010-T1 of $64.1 million (2014: $86 million);
- a term securitisation facility under the Pinnacle Series Trust 2013-T1 of $151.0 million (2014: $218 million);
- and a Self securitisation facility under the Pinnacle Series Trust 2014-SST of $339 million (2014: $344 million).

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31. FINANCIAL RISK MANAGEMENT (cont'd)

The Group and the Bank had access to the following undrawn borrowing facilities at 30 June 2015:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
Floating rate				
Expiring within one year (overdraft facilities)	**10,000**	25,000	**10,000**	25,000
	10,000	25,000	**10,000**	25,000

	CONSOLIDATED			
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**
Maturities of financial liabilities	**$000**	**$000**	**$000**	**$000**
2015				
Borrowings	**-**	**147,585**	**62,168**	**151,926**
Members' deposits	**1,023,743**	**878,036**	**413,467**	**72,249**
Derivative financial instruments	**-**	**45**	**654**	**1,504**
	1,023,743	**1,025,666**	**476,289**	**225,679**
2014				
Borrowings	-	27,865	75,408	214,166
Members' deposits	955,713	891,431	396,716	48,788
Derivative financial instruments	-	56	787	1,106
	955,713	919,352	472,911	264,060

	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**
2015				
Borrowings	**-**	**128,536**	**12,710**	**-**
Members' deposits	**1,024,571**	**878,036**	**413,467**	**72,749**
Derivative financial instruments	**-**	**45**	**654**	**1,504**
	1,024,571	**1,006,617**	**426,831**	**74,253**
2014				
Members' deposits	956,116	891,431	396,716	49,473
Derivative financial instruments	-	56	787	1,106
	956,116	891,487	397,503	50,579

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31. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Credit risk management - objectives and policies

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

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

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

Management and control of credit risk is centralised in a Strategic Credit Committee which meets monthly and reports to the Board, the Board Risk Committee and the Chief Executive Officer.

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

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

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

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

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
Concentration of loans				
The loan portfolio of the Bank does not include any loan which represents 10% or more of capital.				
The Bank has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:				
Western Australian State government employees	**636,961**	596,932	**636,961**	596,932
Other	**1,982,032**	1,855,632	**1,982,954**	1,856,365
	2,618,993	2,452,564	**2,619,915**	2,453,297
Concentration of deposits				
Western Australian State government employees	**426,932**	405,653	**426,931**	405,653
Other	**1,960,563**	1,886,995	**1,961,892**	1,888,083
	2,387,495	2,292,648	**2,388,823**	2,293,736

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31. FINANCIAL RISK MANAGEMENT (cont'd)

2015	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	(2,203)	(2,203)	-	-	-	-	-
Fully performing loans							
Home loans	2,127,238	1,725,864	381,898	20,398	-	-	-
Secured overdrafts	50,267	49,464	802	1	-	-	-
Commercial loans	65,876	-	4,269	-	15,562	32,152	13,893
Personal loans	57,748	-	-	-	57,748	-	-
Unsecured overdrafts and credit cards	18,136	-	-	-	-	18,136	-
Total fully performing loans	2,319,265	1,775,328	386,969	20,399	73,310	50,288	13,893
Past due loans							
Home loans							
1-7 days	22,617	19,240	2,628	749	-	-	-
8-30 days	15,288	10,210	2,696	2,382	-	-	-
31-60 days	10,776	4,757	2,209	3,810	-	-	-
61-89 days	3,809	2,251	1,558	-	-	-	-
Total	52,490	36,458	9,091	6,941	-	-	-
Fair value security held (1)	90,478						
Secured overdrafts							
1-7 days	20	20	-	-	-	-	-
8-30 days	552	552	-	-	-	-	-
31-60 days	104	104	-	-	-	-	-
61-89 days	-	-	-	-	-	-	-
Total	676	676	-	-	-	-	-
Fair value security held (1)	2,525						
Commercial loans							
1-7 days	-	-	-	-	-	-	-
8-30 days	884	-	-	478	-	406	-
31-89 days	-	-	-	-	-	-	-
Total	884	-	-	478	-	406	-
Fair value security held (2)	1,660						
Personal loans							
1-7 days	1,134	-	-	-	1,134	-	-
8-30 days	788	-	-	-	788	-	-
31-89 days	552	-	-	-	552	-	-
Total (3)	2,474	-	-	-	2,474	-	-

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31. FINANCIAL RISK MANAGEMENT (cont'd)

2015	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	6,257	-	-	-	-	6,257	-
8-30 days	46	-	-	-	-	46	-
31-89 days	292	-	-	-	-	292	-
Total	6,595	-	-	-	-	6,595	-
Total past due loans	63,119	37,134	9,091	7,419	2,474	7,001	-
Impaired loans							
Home loans							
90 days plus	12,528						
Fair value security held (1)	19,437						
Secured overdrafts							
90 days plus	332						
Fair value security held (1)	1,085						
Commercial loans							
90 days plus	8,005						
Fair value security held (2)	6,345						
Personal loans							
90 days plus	363						
Unsecured overdrafts and credit cards							
90 days plus	109						
Total impaired loans	21,337						
Securitised loans	215,272						
Total loans portfolio	2,618,993						
Other interest-bearing receivables							
Interest-earning deposits-banks	-		-	-	-	-	-
Interest-earning deposits-other ADIs	-		-	-	-	-	-
Accrued interest receivable	-		-	-	-	-	-
Total other interest-bearing receivables	-	-	-	-	-	-	-

Notes to the Financial Statements

30 JUNE 2015

31. FINANCIAL RISK MANAGEMENT (cont'd)

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

Notes to the Financial Statements

30 JUNE 2015

31. FINANCIAL RISK MANAGEMENT (cont'd)

2014	Maximum exposure to credit risk	Credit risk rating Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6
	$000	$000	$000	$000	$000	$000	$000
Unsecured overdrafts and credit cards							
1-7 days	5,983	-	-	-	-	5,983	-
8-30 days	74	-	-	-	-	74	-
31-89 days	124	-	-	-	-	124	-
Total	6,181	-	-	-	-	6,181	-
Total past due loans	57,185	29,255	11,981	5,184	4,584	6,181	-
Impaired loans							
Home loans							
90 days plus	8,574						
Fair value security held (1)	15,496						
Secured overdrafts							
90 days plus	-						
Fair value security held (1)	-						
Commercial loans							
90 days plus	6,521						
Fair value security held (2)	6,165						
Personal loans							
90 days plus	113						
Unsecured overdrafts and credit cards							
90 days plus	38						
Total impaired loans	15,246						
Securitised loans	303,557						
Total loans portfolio	2,452,564						
Other interest-bearing receivables							
Interest-earning deposits-banks	-	-	-	-	-	-	-
Interest-earning deposits-other ADIs	-	-	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-	-	-
Total other interest-bearing receivables	-	-	-	-	-	-	-

(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 2015

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	
	2015 Unaudited	2014 Audited	**2015 Unaudited**	2014 Audited
Capital Adequacy ratio as reported to APRA at 30 June	**15.67%**	16.52%	**16.09%**	17.00%

30 JUNE 2015

32. CORRECTION OF ERROR IN PERSONAL LOAN INTEREST CALCULATION

In January 2015, an internal review identified that P&N Bank had not correctly passed on changes to the published variable personal loan rates to some of its personal loan borrowers. As a result, the Bank is providing refunds to a number of members who were over charged interest from 1/1/2008 until 15/5/2015 when all impacted interest rates were corrected. Details of the review and corrective actions have been advised to the Australian Securities & Investments Commission, the Australian Prudential Regulation Authority and the Financial Ombudsman Service. The review also identified members where P&N had undercharged interest. P&N Bank will not be following up any member who was undercharged interest. Given the refunds apply to members over a number of years, interest revenue in prior periods has been incorrectly overstated.

Of the $2,123,000 cumulative overstatement of interest revenue in prior periods, $1,343,000 related to the 2014 financial year, with the remainder relating to 2013 and prior.

The error has been corrected by including a provision for member interest (note 21) for the estimated accumulated amount to be refunded at each balance sheet date, with a corresponding reduction in interest revenue in each period concerned. Including the taxation impacts, key financial statement line items for the 2014 period have been corrected as follows:

	CONSOLIDATED			POLICE & NURSES LIMITED		
	2014	increase / (decrease)	2014 Restated	2014	increase / (decrease)	2014 Restated
	$000	$000	$000	$000	$000	$000
Income Statement (extract)						
Interest revenue	146,417	(1,343)	145,074	150,893	(1,343)	149,550
Net Interest income	60,113	(1,343)	58,770	60,580	(1,343)	59,237
Total income	82,970	(1,343)	81,627	76,811	(1,343)	75,468
Profit before income tax	11,929	(1,343)	10,586	13,348	(1,343)	12,005
Income tax expense	2,819	(403)	2,416	3,518	(403)	3,115
Profit for the year	9,110	(940)	8,170	9,830	(940)	8,890
Profit Attributable To Members	9,091	(940)	8,151	9,830	(940)	8,890
Statement of Comprehensive Income (extract)						
Profit for the year	9,110	(940)	8,170	9,830	(940)	8,890
Total comprehensive income for the period	9,697	(940)	8,757	10,417	(940)	9,477
Total comprehensice income attributable to:						
Members of the Bank	9,678	(940)	8,738	10,417	(940)	9,477
Balance Sheet (extract)						
Deferred tax assets	-	-	-	1,379	637	2,016
Total assets	2,910,207	-	2,910,207	2,840,281	637	2,840,918
Provisions	6,524	2,123	8,647	3,505	2,123	5,628
Deferred tax liabilities	3,801	(637)	3,164			
Total liabilities	2,667,748	1,486	2,669,234	2,608,077	2,123	2,610,200
Net assets	242,459	(1,486)	240,973	232,204	(1,486)	230,718
Retained earnings	22,517	(1,486)	21,031	12,836	(1,486)	11,350
Total members' funds	242,459	(1,486)	240,973	232,204	(1,486)	230,718
Statement of Changes in Equity (extract)						
Total members' funds (equity) at the beginning of the financial year	232,797	(546)	232,251	221,787	(546)	221,241
Profit for the year	9,110	(940)	8,170	9,830	(940)	8,890
Total members' funds (equity) at the end of the financial year	242,459	(1,486)	240,973	232,204	(1,486)	230,718

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 22 to 73 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 2015 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

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

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

P M GABB
Director

S J MELVILLE
Director

31 August 2015
PERTH WA

Independent Auditor's Report

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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 2015, the income statements, statements of comprehensive income, statement of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Bank and Police & Nurses Limited Group (the consolidated entity). The consolidated entity comprises the Bank and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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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 2015 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).

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll

Justin Carroll
Partner

Perth
31 August 2015

Police & Nurses Limited Head Office

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Tel: 13 25 77

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135 Riseley Street Booragoon
Western Australia 6154

Bunbury
Shop 46 Bunbury Forum Shopping Centre
Sandridge Road Bunbury
Western Australia 6230

Cannington
Shop 1047A Westfield Carousel S/Centre
1382 Albany Highway Cannington
Western Australia 6107

Fremantle
Shop 2 Woolstores Shopping Centre
Corner Queen & Cantonment Street Fremantle
Western Australia 6160

Innaloo
Shop 1100 Westfield Innaloo S/Centre
Ellen Stirling Boulevard Innaloo
Western Australia 6018

Joondalup
Shop T18 Lakeside Joondalup S/Centre
420 Joondalup Drive Joondalup
Western Australia 6027

Maddington
Shop 61 Centro Maddington S/Centre
Attfield Street Maddington
Western Australia 6109

Mandurah
Shop 62 Centro Mandurah Shopping Centre
Mandurah Bypass Road Mandurah
Western Australia 6210

Midland
Shop T105A Midland Gate Shopping Centre
Great Eastern Highway Midland
Western Australia 6056

Morley
Shop SP087 Galleria Shopping Centre
Bishop Street Morley
Western Australia 6062

Ocean Keys
Shop 127 Ocean Keys Shopping Centre
Ocean Keys Boulevard Clarkson
Western Australia 6030

Perth
Ground Floor, 130 Stirling Street, Perth
Western Australia 6000

Rockingham
Shop G069 Rockingham City S/Centre
Read Street Rockingham
Western Australia 6168

Success
Shop G-335 Cockburn Gateway S/Centre
Beeliar Drive Success
Western Australia 6164

Warwick
Shop SP072 Centro Warwick S/Centre
Corner Erindale & Beach Road Warwick
Western Australia 6024

Whitfords
Shop 158 Westfield Whitford City S/Centre
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Western Australia 6025

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