



Directory

Directors

P M Gabb (Chair)
S J Melville (Deputy Chair)
E Bradley
M L Fyfe
W Gregson
K J O'Callaghan
M J O'Neill (until 24 October 2015)
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

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the report of the Directors on pages 16 to 20, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 29 August 2016. 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 2016 can be found here:

<https://www.pnbank.com.au/about/corporate-information/corporate-details/>

Financial results at a glance

	2011	2012	2013	2014*	2015	2016	5 year CAGR**	1 year CAGR**
Total loans under management (\$m)	2,439	2,387	2,386	2,450	2,615	3,163	5.33%	20.94%
Total assets under management (\$m)	2,859	2,830	2,845	2,910	3,064	3,761	5.64%	22.73%
Deposits (\$m)	1,756	1,851	2,032	2,293	2,387	2,701	8.99%	13.14%
Reserves (\$m)	210.8	218.3	232.8	241.0	251.5	260.5	4.33%	3.61%
Group NPAT[^] (\$m)	12.8	9.2	13.1	8.2	9.3	8.5	-7.83%	-8.61%
Bank NPAT[^] (\$m)	14.3	11.1	12.1	8.9	10.2	10.6	-5.86%	3.72%

* 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
until 24 October 2015



Eric Laurence Smith
Director

Chair's Report



“Whatever market challenges lay ahead, there will no doubt also be opportunities for growth. We have a strong Board together with very talented business leaders who are well placed to build a solid and sustainable future for our Bank on behalf of our members.”

It is with great pleasure I present our 2016 Annual Report.

It's been a defining year for P&N with success and growth on a number of fronts and significant consolidation and improvement in the back office. Under the strong leadership of our CEO, Andrew Hadley and his Executive Team, P&N progressed our five year strategic plan, continuing to focus on building member value, improving organisational effectiveness and partnering for growth.

We have grown our lending book significantly during a period of economic uncertainty, continued to amplify our core focus on member value and have benefitted from collaborating with a number of like-minded partners to achieve economies of scale. This has allowed us to bring products and services online much faster than if we had done so alone.

At P&N our members are our shareholders. There is no tension between those who bank with us and our owners; they are one and the same. Our member focus has been evidenced by one of the highest customer satisfaction scores in Australia, with P&N a frequent winner of Roy Morgan's Bank of the Month for Customer Satisfaction over the past 12 months.

On the flipside, the major banks in Australia continue to lag considerably when compared to P&N Bank.



The Year in Review

The Federal Government handed down its response to the Murray Financial Services Inquiry in October 2015 while the Senate Inquiry into Co-operatives, Mutuals and Member owned firms released its report in March 2016.

Our CEO has met with a number of politicians, both in WA and Canberra, to put forward our case for a more level playing field between P&N's customer-owned model and that of the majors, particularly in terms of capital access, risk weightings and taxation reform. We have also tabled the need for Government and regulators to consult with customer owned banks when reform and regulations are being crafted to minimise unintended consequences on our sector.

Both the Murray Inquiry into the Financial Services Industry and the Senate Inquiry into Co-operatives and Mutuals proffered several key recommendations that, if implemented, would go a long way to creating a more balanced and competitive environment, providing more choice for Australian consumers. We will continue to champion the timely implementation of these recommendations.

As you will see from the CEO's Report, we are operating within an environment that is fast paced and challenging. In a global environment, competition in the future will come from non-traditional sources opening up banking to a raft of additional players. The sophisticated digitisation of online and mobile banking is ever changing and expensive, especially for an organisation of our size, but we believe that our members deserve access to the latest digital banking service offerings. As such, P&N needs to not only be financially strong for today's conditions but also agile and nimble, ready to take advantage of innovation and opportunities that will benefit our members long into the future.

Whatever market challenges lay ahead, there will no doubt also be opportunities for growth. We have a strong Board together with very talented business leaders who are well placed to build a solid and sustainable future for our Bank on behalf of our members.

Chair's Report

Board Positions

Following our Annual General Meeting of Members last October, we sadly lost a valued and respected member of our Board. Mike O'Neill, who was appointed as one of our two Board appointed Directors in 2013, passed away unexpectedly. Lauded for his skills and extensive experience in banking and strategic planning, Mike played a vital role on P&N's Audit and Risk Committees. I wish to again extend my deepest sympathies to Mike's family, friends and fellow colleagues.

Final words from the Chair...

I believe that despite the challenges of a weaker local economy, P&N is stronger than ever.

The success of the past year would not have been possible without our very dedicated Board of Directors, the commitment and passion of our talented leadership cohort and P&N's incredibly hard-working staff.

I would like to thank my fellow Directors for their support and wise counsel over the past year.

To the P&N leadership team, ably led by our CEO Andrew Hadley, thank you for your unfailing energy, strong work ethic and collaborative approach.

I would like to also commend the hard-working and caring staff at P&N who are committed to putting our members first and are always looking for ways to innovate and improve.

Finally, I would like to thank you, our members for your loyalty and support; for being part of the P&N collective and being our best advocates by recommending our services to your family and friends.

There are exciting times ahead and we look forward to sharing them with you.



Paul M Gabb
Chair



CEO's Report



“The Bank achieved in excess of 20% lending growth in a flat WA marketplace, resulting in P&N being the fastest growing customer-owned bank in Australia to June 2016.”

Introduction

I'm pleased to present this year's CEO's Report after a year externally characterised by subdued economic conditions, an uncertain political landscape and a banking sector that has seen unprecedented levels of competition and regulatory focus.

Despite these challenges, the Bank achieved in excess of 20% lending growth in a flat WA marketplace, resulting in P&N being the fastest growing customer-owned bank in Australia to June 2016.

P&N Bank's net profit after tax was a solid \$10.57 million, up 3.7% from last year.

Our lending growth, together with our continuing very high customer satisfaction scores indicate that we are clearly offering the right products and service propositions. We still have further improvements planned that will continue to provide our members with a contemporary and excellent banking experience.

Last year I reported that the first year of our 5 year strategic plan saw P&N deliberately inwardly focused, creating improvements in our processes and investing in our people.

We have undertaken a cultural transformation program – re-educating and training our leaders and staff, resulting in more consistent capability throughout the business.

Further success has been achieved with an improvement of more than 200% in loan processing efficiency which has had a positive impact on our members' experience.

During the year, we continued to partner with like-minded organisations to help us achieve other improvements, such as our early adoption of the PEXA e-settlement platform for home loan settlements.

The Power of &

Building on these improvements and after a significant development phase, in October 2015 we launched a key initiative that would deliver further value to our members and reward loyalty.

Our 'Power of &' brand advertising campaign went to air in October and speaks to the notion of individuals being stronger when they work as a collective. In essence, The Power of & underlies the very nature of mutuality.

This campaign, awarded the AB+F Magazine Retail Bank - Campaign of the Year Award, was closely followed by the launch of our new Home Loan & Bag, bringing to life our new product collective philosophy – tapping into members' desire for choice, value and a simplified offering.



Andrew Hadley and Selina Duncalf receiving the AB+F Award 2016 for Best Marketing Campaign

CEO's Report

The Home Loan & Bag offers a suite of very unique benefits including the choice of a Visa Platinum credit card offering the same low rate as our & Home Loan.

We have since launched our Car Buyers & Bag, Retirement Rewards & Bag and are currently working on a range of other & Bags.

A significant community platform also formed part of our new Power of & initiative; our Flourish Foundation. This initiative comprises several streams including a key program called Helping &nds which affords our members the opportunity to nominate deserving individuals and groups from their social circles or community who need assistance.

Our Helping &nds program has already provided grassroots support to many WA families in real need, by putting food on the table or paying for much needed services. Our quarterly Helping &nds Groups program not only involves members in the nomination process, but it's our members who also vote on who receives our assistance each quarter.

Other components of our Flourish Foundation include our We Champion program, and our staff volunteering program called Flourish@Work which will be outlined later in this report.



Digital

Global banking trends are changing at a rapid rate and we need to keep pace so that we are able to offer our members the services they expect.

With smartphone and mobile banking on the rise and cheque use on the decline, modern retail banking is absolutely reliant on digital technology.

24 hour a day digital access is now the norm whether transferring money between accounts, paying bills or applying for products online.

Our new public website, launched in October 2015, came about as a result of a successful partnership with another mutual banking organisation, Peoples Choice Credit Union (PCCU) and our digital agency, Fusion. Using a white label version of PCCU's website, we were able to take our new website to market in record time and achieve significant efficiencies through partnering, as opposed to developing the platform on our own.

With over 100% growth in traffic to key sections of the new website in the first three months, the website is providing a much better experience and continues to be upgraded and improved to deliver further member value.

And to this point, there are more exciting plans on the horizon.

Our new internet banking platform is launching late in 2016 and will provide significant enhancements and greater convenience for our members on the go. Some new features include online account application functionality, international transfers and credit card activation.

We're also investigating Apple Pay and Android Pay platforms which will allow our members to pay for goods with their phone or mobile device, providing a more convenient option to make purchases. There is high demand for this technology across Australia and we look forward to offering the convenience to our members in the near future.

“Our new internet banking platform is launching late in 2016 and will provide significant enhancements and greater convenience for our members on the go.”

CEO's Report



Financial Results 15/16

Overall economic growth continues to moderate which is expected to result in slightly higher unemployment and weaker consumer confidence levels.

- P&N Bank's net profit after tax was \$10.57 million, up 3.7% from the previous year's \$10.19 million.
- The Bank's capital adequacy ratio decreased 1.48% to 14.55% over the year as a result of strong business growth but remain materially higher than the minimum required by the regulator. We will continue to ensure the Bank's capital management strategy aligns appropriately to the economic conditions in which the Bank operates.
- Total Bank assets increased by \$733.8 million (24.4%) to \$3.74 billion, largely driven by a \$547.9 million (20.9%) increase in loans and advances.
- Member deposits increased by \$313.6 million (13.1%) to \$2.70 billion, as a result of targeting new and existing members with competitive product offerings.
- Group Profit before tax increased by 6% from \$11.9m to \$12.6m.
- Group Profit after tax decreased 9% from \$9.3m to \$8.5m. This was due to the normalising of the effective tax rate to 32% from 21% in 2015 and property asset revaluations.
- Group net interest income increased by \$5.1 million (8.1%).
- Total Group assets increased by \$696.7 million (22.7%) to \$3.76 billion.
- Total Member Funds, including retained earnings, increased by \$9.1 million (3.6%) to \$260.5 million.

In 2015/2016, our member definition was changed to report on those members who have an active product relationship with the Bank. While historically a level of dormant members was included in P&N's reporting, our underlying product holding members grew by 2% to 91,197.

CEO's Report

Looking Ahead

With significant world-wide geopolitical activity impacting growth across the globe, the year ahead looks much the same as the previous year – uncertain and volatile.

At a national level, with low inflation and weak wages growth, the RBA is tightly managing the already low cash rate of 1.5% in an endeavour to prevent the inflation rate dropping further.

This very low cash rate environment is causing significant pressure on the margin between the rates we charge our borrowers and those we pay our depositors. Despite being customer-owned with no requirement to pay third party shareholders an annual dividend, P&N needs to create a modest profit to reinvest back into the business as capital to sustain, develop and grow the Bank.

The current market conditions and resultant interest margin squeeze are providing all banks with unprecedented

challenges, however we will continue to offer the best rates we can to all our members.

During this year, APRA imposed a restriction on investment lending, limiting growth to 10%. This regulatory change was primarily driven by an overheated real estate market in both New South Wales and Victoria.

As a WA customer-owned bank, we were disappointed that P&N was required to significantly restrict our investor lending at a time when our new brand campaign, customer satisfaction levels and home loan products were attracting new members.

With a fragile economy, fierce competition and an eye on risk management, P&N will look to moderate its growth and continue to manage our pricing, product offerings, digital technologies and member service to ensure a strong and sustainable organisation on behalf of our members.



Acknowledgements

After another very active year at P&N, I would like to sincerely thank the Board of Directors and particularly the Chair, Paul Gabb for his counsel and continued support.

I would also like to acknowledge and commend the loyalty, dedication and commitment of my leadership team, our managers and our staff who always put the needs of our members at the forefront of everything they do. At P&N, we enjoy high levels of engagement across our business and share a strong sense of family as we work together as one team. Thank you to each and every one of you.

Finally I wish to thank you, our members, for your continued loyalty and commitment to P&N. I would encourage you to promote the benefits of customer-owned banking to your family and your friends. By bringing more Western Australians into our collective, we as individuals, will all be better off.

A handwritten signature in black ink, appearing to be 'Andrew Hadley', written over a white background.

Andrew Hadley
Chief Executive Officer

The Year in Review



Banking Products

Our new product range, launched in October as part of our Power of & platform, has already achieved great success.

We launched our Home Loan & Bag that offers a low rate home loan, with the option of the same low rate for purchases on an & Visa Platinum Credit Card and the option of a 100% offset access account. The Car Buyers & Bag combines a low rate car loan with competitive car insurance and a car search service to help members find the car they want at a price they can afford.

We recently launched our Retirement Rewards & Bag which focuses on saving for retirement and is suitable for those already retired or who are starting to think about taking the next step towards retirement.

P&N Financial Planning

The team at P&N Financial Planning had another successful year, growing their client numbers and funds under advice, while maintaining their strong member satisfaction levels.

In early 2016, the team launched the Financial Knowledge Centre to their clients; an online portal to provide financial services information and education. The financial literacy tools include online calculators, videos, tutorials and in-depth articles on a range of subjects to help clients stay informed.

Broker Services

P&N Bank's Broker Services had a successful year with 38% growth in loan funding sourced via brokers. This was partially due to the quality of our product, improvements in loan processing times and a strong presence in the local broker market. Our growth was also impacted by broker preference which saw them start to shift away from the major banks and towards smaller players such as P&N, who can offer a high level of personal service and more competitive loan products.



The Year in Review



Branch changes

In August 2015 we relocated our Midland Branch to larger premises in Midland Gate Shopping Centre. In March 2016 our Mandurah Branch was relocated from the Mandurah Forum Shopping Centre to Sholl Street, in the banking district of Mandurah. The new branch design offers members a modern, convenient and comfortable environment to do their banking.

We will also be seeing some significant branch changes in the second half of 2016; with a relocation in Bunbury, a temporary closure of Cannington Branch, a permanent closure of Fremantle Branch and the opening of our new concept Perth Branch in St Georges Terrace early in 2017.



Community

During the financial year, P&N Bank launched its 'Flourish Foundation', our community platform that connects our members and staff with individuals and groups in our community who need help.

Helping &ndrs Groups recipient EdConnect receiving their grant

Helping &ndrs Individuals

Nominated by our members, P&N contributes to the basic needs or special requests of individuals or families dealing with notable hardship.

Helping &ndrs Groups

Again nominated by our members, and also voted on by our members, our quarterly contribution program provides assistance to community groups or small not-for-profit organisations.



Andrew Liddawi and Ray Yong from Wheelchair Sports Association assisting Andrew Hadley's We Champion Wheelchair Challenge.

We Champion

P&N Bank undertook four new community partnerships in the first half of 2016, in the areas of mental health and children and youth, which form our We Champion program.

- Lifeline WA – suicide and crisis support
- The Fathering Project – not-for-profit connecting fathers with their children
- Variety – the Children's Charity
- Alongside – support for families of Defence, Police and Emergency Services personnel who are suffering from Post Traumatic Stress Disorder



P&N Bank staff volunteering their time for Manna Inc through our Flourish@Work program

Flourish@Work

P&N's new volunteering program was launched early in 2016. Our staff actively participate in community volunteering activities, which is further evidence of the collective enhancing the lives of individuals. While only a new initiative, already 25% of staff have directly participated.

The Year in Review



Corporate Partnerships

Perth Wildcats

P&N continued to partner with WA's highly successful NBL team, the Perth Wildcats, who like us, have a very strong member focus, high member loyalty and a close association with the WA community.

Our fourth year as the Official Membership Partner of the Perth Wildcats was completed in June 2016 after the Perth Wildcats took out the NBL Championship. During the season, P&N Bank sponsored the Perth Wildcats Member Day and two exciting game nights at the Perth Arena.

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 and to the general public. P&N Bank will again sponsor the Perth Wildcats as Official Membership Partner during the 2016/17 season.

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 recipients continue to work hard, their scholarship is renewed in year 12. The 2016 P&N Bank scholarship recipients were Rosemary Clements, from Ballajura Community and Hayden King, from Applecross Senior High School. As part of our Flourish Foundation, we have plans to broaden our program in 16/17 with details to be announced later this year.

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 Officers and also the outstanding contribution of a number of exceptionally committed individuals.



Channel 9 Police Officer of the Year Winner Senior Constable Brett Jeffrey with Karl O'Callaghan, Commissioner of Police and Liza Harvey, Minister for Police

Executive Team



Andrew Hadley
Chief Executive Officer



Dave Spearman
Chief Financial Officer



Corrine Alexander
Chief Risk Officer



Mark Smith
General Manager
Organisational Development



Selina Duncalf
Chief Operating Officer



Sean FitzGerald
General Manager
Retail Banking &
Distribution



Erik Fenna
Chief Information Officer

Accessible Banking

Branches

Our branch network extends from Ocean Keys in the north to Bunbury in the south and offers home and personal lending, insurance, transactional banking, 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 contacts per day and operates from 8.00am to 6.00pm (WST), Monday to Friday and 9.00am to 5.00pm (WST) on Saturdays.

Online Banking Services

Internet banking allows members to access their accounts 24/7 via the internet. Our mobile banking app allows members to access their accounts easily via mobile phones and tablets.

Phone Banking

Through phone banking our members can retrieve account information, transfer money and pay their bills.

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 lending solution to suit your needs - so members can spend their free time doing the things that they love.

Financial Planning

P&N Bank Financial Planning helps members 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 are made available to members through our affiliation with QBE Insurance Australia.

Foreign Exchange

We can provide our members with a range of foreign exchange services from cash passports to international transfers and 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 2016.

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)

Executive - Australian Federal Police, 18 years service as a Director of the Bank; 30 years service in Law Enforcement. Audit Committee member, Risk Committee member from 26 October 2015 and Remuneration Committee member to 25 October 2015.

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

Director - Corporate Services, Department of State Development, 22 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 in 2015, Risk Committee Chair from 26 October 2015, Member of Audit Committee, Board Governance Committee to 25 October 2015 and Board Credit Committee.

Edwin Roy BRADLEY MBA BBus GAICD FCPA SF Fin

Consultant with 39 years extensive experience in retail banking, strategic planning, corporate banking and risk management. Bachelor’s degree in accounting and business law, postgraduate diploma in economics and financial management plus an MBA. Four years service as a Director of the Bank. Risk Committee member, Audit Committee member and Board Credit Committee Chair.

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

Assistant Commissioner State Crime – WA Police. 32 years service as a Police Officer, seven years service as a Director of the Bank. Board Governance Committee member, Board Credit Committee member from 26 October 2015 and Nominations Committee Chair in 2016.

Wayne GREGSON APM BA MBA FAICD

Commissioner, Department of Fire & Emergency Services WA, 32 years service as a Police Officer, seven years service as a Director of the Bank. Member of Remuneration Committee and Remuneration Committee Chair from 26 October 2015 and Board Governance Committee member from 26 October 2015.

Report of the Directors

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

Commissioner of WA Police. 43 years service as a Police Officer and 11 years service as a Director of the Bank. Board Governance Committee Chair and Remuneration Committee member from 26 October 2015.

Michael John O'NEILL Dip BAdmin FACID CIM SF Fin

Mr O'Neill was acting Managing Director for Gindalbie Metals Ltd, and had over 41 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, postgraduate diploma in financial management and had three years service as a Director of the Bank. He was a Member of the Audit Committee, Risk Committee Chair and Board Credit Committee member. (Director until 24 October 2015.)

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). 22 years service as a Director of the Bank; 40 years service as a Police Officer. Member of Remuneration Committee and Remuneration Committee Chair to 25 October 2015 and Audit Committee Chair from 26 October 2015.

Each Director holds one member share in the Bank.

Company Secretary

Jennifer Anne HANDZ

One year service as General Counsel and Company Secretary of the Bank. Has held senior legal roles in Perth, London, Moscow, Hanoi and Warsaw. Admitted as a solicitor and barrister to the Supreme Court of Western Australia in 1987.

Composition and Meetings of the Board

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

- the Board comprises a maximum of nine 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 2016 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
E L Smith	12	9	3	3	*	*	*	*	5	5	*	*
P M Gabb***	12	12	4	3	*	*	5	5	3	3	*	*
E R Bradley	12	12	4	4	*	*	8	8	*	*	1	1
M L Fyfe	12	11	*	*	4	3	*	*	*	*	0	0
W Gregson	12	10	*	*	2	2	*	*	5	4	*	*
S J Melville**	12	12	4	4	2	2	8	8	*	*	1	1
K J O'Callaghan	12	9	*	*	4	4	*	*	2	0	*	*
M J O'Neill****	4	3	1	1	*	*	3	2	*	*	1	1

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

B Number of meetings attended

*

** 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 two meetings of the Risk Committee as an observer and one meeting of the Board Governance Committee as an observer.

**** Director until 24 October 2015.

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 outline its roles and responsibilities. The Committee comprises a Chairperson and two independent members. None of the Nominations Committee members are employees of the Bank.

Group Risk Management

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

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

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

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

Ethical Standards

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

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

Principal Activities

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

Report of the Directors

Review of Operations

The profit of the Group and the Bank for the financial year after income tax and before minority interest was \$8,550,000 (2015: \$9,319,000) and \$10,572,000 (2015: \$10,193,000) respectively.

During the financial year, total assets of the Group increased by \$696,659,000 to \$3,761,092,000, members' deposits increased by \$313,608,000 to \$2,701,103,000, and loans and advances increased by \$547,560,000 to \$3,162,776,000.

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

Future Development and Results

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

Bad and Doubtful Debts

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

Assets

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

Significant Changes

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

Events Subsequent to the End of the Financial Year

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

Environmental Regulation

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

Register of Directors' Interests

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

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

Insurance of Officers

During the year, a premium was paid in respect of a contract insuring Directors and officers of the Bank against liability. The officers of the Bank 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

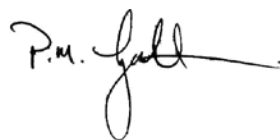
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

Rounding of Amounts

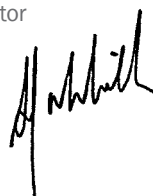
The company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars or in certain cases to the nearest dollar.

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

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



P M GABB
Director



S J MELVILLE
Director

29 August 2016
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 2016, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

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

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
29 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757

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Income Statements

YEAR ENDED 30 JUNE 2016	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2016	2015	2016	2015
		\$000	\$000	\$000	\$000
Interest revenue	3	149,637	141,220	169,053	155,802
Interest expense	3	81,733	78,413	99,990	91,177
Net interest income		67,904	62,807	69,063	64,625
Non-interest revenue					
Loan fee revenue		4,006	3,564	4,006	3,564
Financial services fees		3,218	3,471	3,218	3,471
Financial planning fees		3,052	3,074	-	-
Amenity fees		618	637	-	-
Other fee revenue		781	881	553	580
Insurance commissions		3,740	3,376	3,740	3,376
Other commissions		1,838	1,617	1,838	1,617
Revenue from sale of property developments		556	35,147	-	-
Dividend revenue		409	409	1,009	409
Other income					
Bad debts recovered		415	504	415	504
Net gain on disposal of property, plant and equipment		-	35	-	29
Other income		1,465	1,949	1,199	1,316
Total non-interest revenue and other income		20,098	54,664	15,978	14,866
Total income		88,002	117,471	85,041	79,491
Bad and doubtful debts expense	8(b)	2,969	2,322	2,969	2,322
Other expenses					
Auditor's remuneration	27	427	750	392	683
Finance costs		463	454	463	454
Depreciation and amortisation		5,299	5,607	5,109	5,395
Fees and commissions		8,648	6,721	8,610	6,703
Property development costs		596	34,719	-	-
Employee benefits expense		33,331	32,754	30,774	30,115
Information technology costs		5,612	5,064	5,529	5,062
Marketing costs		3,989	2,772	3,952	2,737
Other general and administration costs		7,152	8,141	6,700	6,973
Loss on revaluation of investment property		859	324	-	-
Rental - operating leases		6,090	5,985	6,090	5,985
Total expenditure		75,435	105,613	70,588	66,429
Profit before income tax		12,567	11,858	14,453	13,062
Income tax expense	4	4,017	2,539	3,881	2,869
Profit for the year		8,550	9,319	10,572	10,193
(Profit)/loss attributable to non-controlling interests		(33)	(40)	-	-
Profit attributable to members		8,517	9,279	10,572	10,193

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

Statements of Comprehensive Income

YEAR ENDED 30 JUNE 2016	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000
Profit for the year		8,550	9,319	10,572	10,193
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	22(c)	755	(254)	755	(254)
Changes in the fair value of available for sale financial assets	10(a)	-	1,925	-	1,925
Income tax relating to this item	4(c)	(227)	(501)	(227)	(501)
Other comprehensive income for the year, net of tax		528	1,170	528	1,170
Total comprehensive income for the period		9,078	10,489	11,100	11,363
Total comprehensive income for the year is attributable to:					
Members of the Bank		9,045	10,449	11,100	11,363
Non-controlling interests		33	40	-	-
		9,078	10,489	11,100	11,363

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

Balance Sheets

AS AT 30 JUNE 2016	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2016	2015	2016	2015
		\$000	\$000	\$000	*restated \$000
Assets					
Cash and cash equivalents	5	164,351	62,541	110,060	21,730
Receivables due from other financial institutions	6	341,378	282,341	341,378	282,341
Available for sale financial assets	10	6,940	7,176	4,877	5,113
Loans and advances	8	3,162,776	2,615,216	3,163,989	2,616,138
Due from controlled entities	11	-	-	93,889	45,535
Property, plant and equipment	12	7,190	7,495	7,104	7,381
Investment property	13	21,425	22,284	-	-
Investments in controlled entities	14	-	-	3,083	3,083
Intangible assets	15	8,865	10,129	7,293	8,394
Deferred tax assets	16	-	-	3,077	2,906
Other assets	7	48,167	57,251	6,919	15,266
Total assets		3,761,092	3,064,433	3,741,669	3,007,887
Liabilities					
Members' deposits	17	2,701,103	2,387,495	2,702,424	2,388,823
Trade and other payables	18	40,719	48,614	19,935	23,827
Derivative financial instruments	9	1,448	2,203	1,448	2,203
Current tax liabilities		978	1,994	986	1,947
Borrowings	19	747,195	361,679	306,179	141,246
Due to controlled entities	11	-	-	447,838	195,744
Provisions	20	7,504	9,674	4,019	6,357
Deferred tax liabilities	21	1,605	1,312	-	-
Total liabilities		3,500,552	2,812,971	3,482,829	2,760,147
Net assets		260,540	251,462	258,840	247,740
Members' funds					
Reserves	22	221,130	220,572	221,130	220,572
Retained earnings	22	38,763	30,276	37,710	27,168
Non-controlling interests		647	614	-	-
Total members' funds		260,540	251,462	258,840	247,740

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

*see note 31 for details regarding the accounting treatment for the taxation of intragroup dividends.

Statements of Changes in Equity

YEAR ENDED 30 JUNE 2016	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2016 \$000	2015 \$000	2016 \$000	2015 *restated \$000
Total members' funds (equity) at the beginning of the financial year		251,462	240,973	247,740	236,377
Changes in the fair value of cash flow hedges, net of tax	22(c)	528	(178)	528	(178)
Changes in the fair value of available for sale financial assets	22(d)	-	1,348	-	1,348
Net income recognised directly in members' funds (equity)		528	1,170	528	1,170
Profit for the year		8,550	9,319	10,572	10,193
Total comprehensive income for the year		9,078	10,489	11,100	11,363
Total members' funds (equity) at the end of the financial year		260,540	251,462	258,840	247,740
Total comprehensive income for the year is attributable to:					
Members of the Bank		9,045	10,449	11,100	11,363
Non-controlling interests		33	40	-	-
		9,078	10,489	11,100	11,363

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

*see note 31 for details regarding the accounting treatment for the taxation of intragroup dividends.

Cash Flow Statements

YEAR ENDED 30 JUNE 2016	Notes	CONSOLIDATED		POLICE & NURSES LIMITED	
		2016	2015	2016	2015
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
Interest received from loans		139,526	130,552	140,839	130,552
Interest received from investments		10,712	10,788	28,815	25,370
Commissions and other income received		20,009	27,604	14,553	13,921
Borrowing costs – members		(65,661)	(65,955)	(65,661)	(65,955)
Borrowing costs – banks		(17,204)	(8,704)	(35,462)	(25,463)
Payments to employees and suppliers		(75,240)	(64,335)	(67,009)	(56,995)
Income taxes paid		(4,967)	(5,422)	(5,240)	(4,798)
Net cash inflow from operating activities	23(a)	7,175	24,528	10,835	16,632
Cash flows from investing activities					
Dividends received		409	409	409	409
Increase in loans and advances		(550,114)	(167,492)	(550,405)	(167,681)
Net movement in interest-earning deposits		(59,036)	9,695	(59,036)	9,695
Net movement in other investments		-	(2,753)	-	-
Payments for property, plant and equipment		(1,952)	(2,897)	(1,952)	(2,799)
Proceeds from sale of property, plant and equipment		-	314	-	283
Payments for intangible assets		(1,778)	(2,230)	(1,778)	(2,230)
Loans to controlled entities		-	-	203,742	(93,347)
Net cash outflow from investing activities		(612,471)	(164,954)	(409,020)	(255,670)
Cash flows from financing activities					
Net increase in members' deposits		321,545	94,816	321,537	95,056
Borrowings from other financial institutions		385,516	44,241	164,933	141,246
Member shares issued		76	65	76	65
Member shares redeemed		(31)	(34)	(31)	(34)
Net cash inflow from financing activities		707,106	139,088	486,515	236,333
Net increase/(decrease) in cash and cash equivalents held		101,810	(1,338)	88,330	(2,705)
Cash and cash equivalents at the beginning of the year		62,541	63,879	21,730	24,435
Cash and cash equivalents at the end of the year	5	164,351	62,541	110,060	21,730

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

Notes to the Financial Statements

30 JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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 2015:

AASB 2013-9 Amendments to Australian Accounting Standards- Conceptual Framework, Materiality and Financial Instruments

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 101 Materiality

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 financial statements.

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

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

Notes to the Financial Statements

30 JUNE 2016

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

(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 28.

(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 Group, whichever is the shorter.

Notes to the Financial Statements

30 JUNE 2016

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) Available for sale financial assets

Available for sale financial assets are initially recognised at fair value plus acquisition charges. After initial recognition, investments are remeasured at fair value. Changes in fair value of 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.

(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 acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

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

(ii) Computer software costs

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably

measured and it is probable they will lead to future economic benefits that the Group controls.

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

These assets are amortised over the estimated useful lives (3 to 10 years) on a straight-line basis at a rate applicable to the expected useful life of the asset. Software maintenance costs continue to be expensed as incurred. Any impairment loss is recognised in the income statement when incurred.

(iii) Client list

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

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

(i) Impairment of assets

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

Notes to the Financial Statements

30 JUNE 2016

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

(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.

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

Notes to the Financial Statements

30 JUNE 2016

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

(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 balance sheet date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance sheet date on high quality corporate bonds with term to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

(p) Inventories

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

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

Notes to the Financial Statements

30 JUNE 2016

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

(q) Derivatives

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

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

Hedge accounting

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

The Group uses cash flow hedges to manage exposure to variability in cash flows associated with a highly probable forecasted transaction or a committed transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, for instance, when the forecast transaction that is hedged takes place.

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

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

(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.

Notes to the Financial Statements

30 JUNE 2016

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

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

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

(v) Trade & 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.

(w) Loan origination fees and transaction costs

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

(x) 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.

(y) 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

Notes to the Financial Statements

30 JUNE 2016

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

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.

(z) 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.

(aa) 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.

(ab) Rounding of amounts

The company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(ac) 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.

Notes to the Financial Statements

30 JUNE 2016

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

The financial impact of the new impairment model of AASB 9 has not yet been assessed.

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 2018 for the Group. The financial impact of the new standard has not yet been assessed.

AASB 16 - Leases primarily affects the accounting for lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires a recognition of an asset and a financial liability. AASB 16 is not mandatory until 1 July 2019 for the Group and the impact on the Group's results have not yet been assessed.

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 property

The Group carries its investment property at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations every two years, with a Directors' valuation done in between. At the end of each balance sheet date, 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 13.

(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 15.

(iv) Property development receivable from Pindan Capital Two Rocks Trust

The fair value of the property development receivable from Pindan Capital Two Rocks Trust is based on assumptions on the number of future lot sales and applies a discount rate of an equivalent corporate debt.

(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 2016

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	2016			2015		
	Average balance \$000	Interest \$000	Average interest rate %	Average balance \$000	Interest \$000	Average interest rate %
Interest earning assets						
Deposits with other banks/ADIs	435,149	10,712	2.46%	333,331	10,788	3.24%
Loans and advances	2,863,041	138,925	4.85%	2,545,474	130,432	5.12%
	3,298,190	149,637	4.54%	2,878,805	141,220	4.91%
Interest bearing liabilities						
Members' deposits	2,279,502	64,991	2.85%	2,218,526	65,714	2.96%
Borrowings from other banks/ADIs	721,882	16,742	2.32%	427,499	12,699	2.97%
	3,001,384	81,733	2.72%	2,646,025	78,413	2.96%
Analysis of net interest income						
Net interest income	67,904			62,807		
Average interest-earning assets	3,298,190			2,878,805		
Net interest margin ⁽¹⁾	2.06%			2.18%		
Spread ⁽²⁾	1.81%			1.94%		

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

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

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
4. INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	4,713	5,376	5,059	4,900
Deferred tax	66	(2,353)	(398)	(1,391)
Over provided for current tax in prior years	(762)	(484)	(780)	(640)
Income tax expense	4,017	2,539	3,881	2,869
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 16)	433	148	(229)	768
Decrease in deferred tax liabilities (note 21)	(367)	(2,501)	(169)	(2,159)
	66	(2,353)	(398)	(1,391)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	12,567	11,858	14,453	13,062
Prima facie income tax calculated at 30% (2015: 30%)	3,770	3,557	4,336	3,920
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non-deductible expenses	32	2	18	7
Intragroup dividends	-	-	(180)	-
Tax offset for franked dividends	(123)	(123)	(123)	(123)
	3,679	3,436	4,051	3,804
Under / (over) provision in previous year, relating to:				
Research and development tax incentive	(135)	(197)	(135)	(197)
Other	473	(700)	(35)	(738)
Income tax expense	4,017	2,539	3,881	2,869
(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 or credited directly to equity (note 16 and 21)	227	501	227	501
(d) Franking credits				
Franking credits based on a tax rate of 30%	76,758	70,888	76,569	70,787

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.

(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 11).

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
5. CASH AND CASH EQUIVALENTS				
Cash on hand	1,322	1,239	1,322	1,238
Cash and deposits at call with banks	154,062	53,975	99,771	13,165
Cash and deposits at call with other ADIs	8,967	7,327	8,967	7,327
	164,351	62,541	110,060	21,730
6. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest earning deposits - banks	299,830	275,380	299,830	275,380
Interest earning deposits - other ADIs	41,548	6,961	41,548	6,961
	341,378	282,341	341,378	282,341

The deposits have an effective interest rate of 2.09% to 3.88% (2015: 2.0% to 5.81%)

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

7. OTHER ASSETS				
Interest receivable	515	1,115	515	1,115
Prepayments	2,088	1,853	2,088	1,853
Amenities and reserve fund fees	9,933	9,933	-	-
Member transaction clearing	4,595	12,578	4,316	12,298
Land and property development debtors	28,855	29,387	-	-
Share of joint venture inventory	2,181	2,385	-	-
	48,167	57,251	6,919	15,266

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 \$26,287,000 (2015: \$25,792,000) of fair value owed from Pindan Capital Two Rocks Pty Ltd as trustee for the Pindan Capital Two Rocks Trust. This amount is payable based on future lot sales with any remaining balance payable on 15 June 2018.

The share of joint venture inventory is composed of "The Enclave" at Eagle Bay:

1. During the year 3 lots (2015: 2 lots) were sold and settled.
2. Titles for the remaining 13 unsold lots are currently held.
3. The share of the joint venture held is 33.33%.

Approximately \$480,000 of inventory is expected to be recovered in less than 12 months after the balance sheet date.

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
8. LOANS AND ADVANCES				
Revolving credit	103,596	99,015	104,809	99,937
Term loans	3,058,087	2,517,270	3,058,087	2,517,270
Related parties (a)	6,092	2,708	6,092	2,708
	3,167,775	2,618,993	3,168,988	2,619,915
Provision for impairment (b)	(4,999)	(3,777)	(4,999)	(3,777)
Net loans and advances	3,162,776	2,615,216	3,163,989	2,616,138

All housing loans are secured by registered mortgages.

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

As at 30 June 2016, securitised loans under management by the Bank amounted to \$968,231,000 (2015: \$554,009,000) which are included in both the revolving credit and term loans above.

This includes \$48,336,000 (2015: \$64,154,000) of loans securitised to the Pinnacle Series Trust 2010-T1, \$107,628,000 (2015: \$150,399,000) of loans securitised to the Pinnacle Series Trust 2013 – T1, \$522,767,000 (2015: \$339,455,000) of loans securitised to the Pinnacle Series Trust 2014 – SST and \$289,500,000 of loans securitised to the Pinnacle RMBS Warehouse Trust.

All trusts are consolidated as part of the Group (note 14). In accordance with AASB 139 the mortgages securitised in the trusts remain on the balance sheet of the Bank.

Maturity period at 30 June 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Not later than one year	158,035	19,391	159,248	18,658
One year to five years	60,737	96,761	60,737	97,494
Over five years	2,944,004	2,499,064	2,944,004	2,499,986
	3,162,776	2,615,216	3,163,989	2,616,138

The maturity tables are based on contractual terms.

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
8. LOANS AND ADVANCES (cont'd)				
(a) Aggregate amounts receivable from related parties				
Key management personnel (as defined in note 26) and their related parties	6,092	2,708	6,092	2,708
	6,092	2,708	6,092	2,708
(b) Provision for impairment				
Specific provision				
Opening balance	3,777	3,020	3,777	3,020
Bad debts previously provided for written off	(1,747)	(1,565)	(1,747)	(1,565)
Bad and doubtful debts provided for during the year	2,969	2,322	2,969	2,322
Closing balance	4,999	3,777	4,999	3,777
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	521	388	521	388
Personal loans	777	718	777	718
Home loans	449	97	449	97
Property Finance	-	362	-	362
	1,747	1,565	1,747	1,565
9. DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps - cash flow hedges (liabilities)	1,448	2,203	1,448	2,203
(a) Terms and conditions				
At balance sheet date, the Group has interest rate swaps with a notional amount of \$177,000,000 (2015: \$222,000,000), on which it pays 1.85% to 4.13% (2015: 2.33% to 4.13%) interest and receives Bank Bill swap rates calculated on the notional amount.				
The swaps are used to protect the Group from movements in interest rates. The swaps in place cover a proportion of the fixed rate loans and advances held at balance sheet date. The swaps expire between July 2016 and July 2021 and the related cash flows are expected to occur in the following periods:				
Less than one year	523	532	523	532
More than one year but less than two years	402	1,295	402	1,295
More than two years but less than five years	523	376	523	376
	1,448	2,203	1,448	2,203
(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 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
10. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in Cuscal (a)	4,813	4,813	4,813	4,813
Investment in Pindan Capital Two Rocks Trust (b)	2,000	2,000	-	-
Investment in Super Myway Pty Ltd	64	300	64	300
Investment in "Heron Park" at Harrisdale	63	63	-	-
	6,940	7,176	4,877	5,113

(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.

(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.

30 JUNE 2016	2016	2015	2016	2015
	\$000	\$000	\$000	*restated \$000
11. DUE FROM / TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	-	-	38,396	40,602
Deferred securitisation receivable	-	-	55,493	4,933
	-	-	93,889	45,535
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	-	-	447,838	195,744
	-	-	447,838	195,744

Amounts due to and from the Bank's self-securitisation facility (Pinnacle Series Trust 2014-SST) are presented net within deferred securitisation receivables as the Group has the right and intention to settle these net. The gross amounts due were \$522,767,000 (2015: \$339,455,000).

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 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
12. PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	13,530	12,340	13,530	12,340
Provision for amortisation	(8,855)	(7,471)	(8,855)	(7,471)
	4,675	4,869	4,675	4,869
Plant and equipment				
At cost	10,853	10,082	10,690	9,888
Provision for depreciation	(8,338)	(7,456)	(8,261)	(7,376)
	2,515	2,626	2,429	2,512
Total property, plant and equipment	7,190	7,495	7,104	7,381

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

	CONSOLIDATED			POLICE & NURSES LIMITED		
	Leasehold improvements \$000	Plant and equipment \$000	Total \$000	Leasehold improvements \$000	Plant and equipment \$000	Total \$000
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	2,626	7,495	4,869	2,512	7,381
Carrying amount at 1 July 2015	4,869	2,626	7,495	4,869	2,512	7,381
Additions	1,189	763	1,952	1,189	763	1,952
Disposals	-	-	-	-	-	-
Depreciation expense	(1,383)	(874)	(2,257)	(1,383)	(846)	(2,229)
Carrying amount at 30 June 2016	4,675	2,515	7,190	4,675	2,429	7,104

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

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
13. INVESTMENT PROPERTY				
At fair value				
Opening balance	22,284	22,608	-	-
Net loss from fair value adjustment	(859)	(324)	-	-
Closing balance	21,425	22,284	-	-

(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	636	380	-	-
Direct operating expenses from property that generated other income	(288)	(57)	-	-
Net loss on revaluation of investment property	(859)	(324)	-	-
	(511)	(1)	-	-

(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 valuation is on the basis that the property must be sold as a whole and continue to be operated as a retirement village. Additionally, it is a requirement of the lease contract entered into with the residents for the community facilities of the retirement village to be maintained.

The basis for the valuation was a formal independent valuation prepared by Richard Noble & Company.

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 30 years (2015: 31 years). The discounted cash flows are based on the following assumptions:

- (i) unit values are based on a weighted average of \$407,857 (2015: \$419,000) per unit;
- (ii) escalation factor of 1% in 2017, 3.5% in 2018 and 5.63% for all subsequent years (2015: 6%) attributable to the unit values which is the market determined long term growth rate for residential property, adjusted to reflect market conditions;
- (iii) unit re-leasing rate equivalent to a comparison of current residents to life expectancy tables produced by the Australian Bureau of Statistics for Western Australia, coupled with a market determined rate of re-leasing occurring for reasons other than death;
- (iv) rate of amenities fee income based on the length of anticipated occupancy;
- (v) discount rate of 13.5% (2015: 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.

Notes to the Financial Statements

30 JUNE 2016

13. INVESTMENT PROPERTIES (cont'd)

(c) Valuation (cont'd)

Representation of valuation in financial statements

The Directors' valuation resulted in a net value of \$8.6 million (2015: \$9.6 million). This has been reflected in the financial statements as follows:

	CONSOLIDATED	
	2016	2015
	\$000	\$000
Net value of property transferred from property, plant and equipment	13,815	13,815
Transfer (to)/from inventories	-	35
Net gain from fair value adjustment	7,610	8,434
Investment property asset	21,425	22,284
Included in property plant and equipment	-	55
Add: accrued amenities fees (Other receivables)	7,152	7,206
Less: lease loan sum liability (note 18)	(19,937)	(19,937)
	8,640	9,608

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

14. INVESTMENTS IN CONTROLLED ENTITIES

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 other controlled entities		Held by other controlled entities	
	2016	2015	Held by the Bank	Held by other controlled entities	Held by the Bank	Held by other controlled entities
	%	%	2016	2016	2015	2015
			\$	\$	\$	\$
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 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
15. INTANGIBLE ASSETS				
Goodwill (i)				
At cost	1,572	1,572	-	-
	1,572	1,572	-	-
Computer software (ii)				
At cost	30,065	28,937	30,065	28,937
Accumulated amortisation	(22,772)	(20,543)	(22,772)	(20,543)
	7,293	8,394	7,293	8,394
Client list (iii)				
At cost	1,861	1,861	-	-
Accumulated amortisation	(1,861)	(1,698)	-	-
	-	163	-	-
Total intangible assets	8,865	10,129	7,293	8,394
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	1,572	1,572	-	-
Closing carrying amount	1,572	1,572	-	-
(ii) Computer software				
Opening carrying amount	8,394	9,247	8,394	9,247
Additions	1,779	2,230	1,779	2,230
Disposals	-	-	-	-
Amortisation charge *	(2,880)	(3,083)	(2,880)	(3,083)
Closing carrying amount	7,293	8,394	7,293	8,394
(iii) Client list				
Opening carrying amount	163	349	-	-
Amortisation charge *	(163)	(186)	-	-
Closing carrying amount	-	163	-	-

* 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 pretax discount rate of 13.5% (2015: 13.5%) and a multiple of recurring income of three (2015: 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 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
16. DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Doubtful debts	1,566	1,133	1,566	1,133
Deferred income	250	477	-	-
Provisions	2,253	2,832	1,206	1,908
Depreciation	212	116	180	79
Accruals	490	712	425	94
Other	109	43	90	24
	4,880	5,313	3,467	3,238
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	434	661	434	661
	5,314	5,974	3,901	3,899
Offset to/from deferred tax liabilities (note 21)	(5,314)	(5,974)	(824)	(993)
Net deferred tax assets	-	-	3,077	2,906
<i>Movements:</i>				
Opening balance	5,974	6,045	3,899	4,590
(Charged) / credited to the income statement (note 4)	(433)	(148)	229	(768)
(Charged) / credited to equity (note 4 & note 22(c))	(227)	77	(227)	77
Closing balance	5,314	5,974	3,901	3,899
17. MEMBERS' DEPOSITS				
Call deposits	1,100,091	1,023,743	1,101,412	1,024,571
Term deposits	1,597,457	1,359,722	1,597,457	1,360,222
Withdrawable shares (a)	805	760	805	760
Related parties (b)	2,750	3,270	2,750	3,270
	2,701,103	2,387,495	2,702,424	2,388,823

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 30.

Notes to the Financial Statements

30 JUNE 2016

17. 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 83,138 (2015: 78,693) member shares on issue at the end of the year:

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 Number of shares	2015 Number of shares	2016 Number of shares	2015 Number of shares
Number of \$10 shares	77,660	73,033	77,660	73,033
Number of \$6 shares	4,776	4,929	4,776	4,929
Number of \$0 shares	702	731	702	731
	83,138	78,693	83,138	78,693
Movements:				
Opening number of shares	78,693	75,710	78,693	75,710
New shares issued during the year	7,585	6,352	7,585	6,352
Resignations during the year	(3,140)	(3,369)	(3,140)	(3,369)
Closing balance	83,138	78,693	83,138	78,693

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

18. TRADE AND OTHER PAYABLES

Accrued interest payable	11,452	12,122	11,452	12,122
Lease loan sums (note 13(c))	19,937	19,937	-	-
Other payables	9,330	16,555	8,483	11,705
	40,719	48,614	19,935	23,827

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

19. BORROWINGS

Secured				
Loans from other ADIs	-	237	-	-
Notes payable	441,016	220,196	-	-
Unsecured	306,179	141,246	306,179	141,246
	747,195	361,679	306,179	141,246

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 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
20. PROVISIONS				
Employee benefits (a)	3,908	3,605	3,695	3,357
Make good (b)	324	276	324	276
Refurbishment (c)	3,272	3,069	-	-
Interest provision	-	2,724	-	2,724
	7,504	9,674	4,019	6,357
(a) Provision for employee benefits				
Opening balance	3,605	3,392	3,357	3,191
Employee benefits previously provided for paid out	(2,996)	(3,028)	(2,706)	(2,813)
Employee benefits provided for during the year	3,299	3,241	3,044	2,979
Closing balance	3,908	3,605	3,695	3,357

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	3,264	2,591	3,129	2,343
Between one and two years	324	493	257	493
Later than two years	320	521	309	521
	3,908	3,605	3,695	3,357

(b) Provision for make good				
Opening balance	276	314	276	314
Adjustment to the provision	-	(86)	-	(86)
Make good provided for during the year	48	48	48	48
Closing balance	324	276	324	276

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 two and three years	324	-	324	-
Between four and five years	-	276	-	276
	324	276	324	276

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
20. PROVISIONS (cont'd)				
(c) Provision for refurbishment				
Opening balance	3,069	2,818	-	-
Refurbishment previously provided for expensed	(53)	(18)	-	-
Refurbishment provided for during the year	256	269	-	-
Closing balance	3,272	3,069	-	-

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.

21. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

Receivables	2,967	2,969	-	-
Intangible assets - software	246	415	246	415
Inventory	62	77	-	-
Fair value adjustment to investment property	2,273	2,530	-	-
Capital works	793	717	-	-
	6,341	6,708	246	415

Amounts recognised directly in equity

Available for sale financial assets	578	578	578	578
	6,919	7,286	824	993

Offset to / from deferred tax liabilities (note 16)

	(5,314)	(5,974)	(824)	(993)
Net deferred tax liabilities	1,605	1,312	-	-

Movements:

Opening balance	7,286	9,209	993	2,574
Charged/(credited) to the income statement (note 4)	(367)	(2,501)	(169)	(2,159)
Charged to equity (note 4)	-	578	-	578
Closing balance	6,919	7,286	824	993

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 *restated \$000
22. RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	220,000	220,000	220,000	220,000
Share capital reserve (b)	796	766	796	766
Cash flow hedges (c)	(1,014)	(1,542)	(1,014)	(1,542)
Available for sale financial assets reserve (d)	1,348	1,348	1,348	1,348
	221,130	220,572	221,130	220,572
Retained earnings				
Balance at beginning of year	30,276	21,031	27,168	17,009
Profit for the year	8,517	9,279	10,572	10,193
Total available for appropriation	38,793	30,310	37,740	27,202
Amount transferred to share capital reserve (b)	(30)	(34)	(30)	(34)
Balance at end of year	38,763	30,276	37,710	27,168
(a) General reserve				
Balance at beginning of year	220,000	220,000	220,000	220,000
Transfer from retained profits	-	-	-	-
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	766	732	766	732
Transfer from retained profits	30	34	30	34
Balance at end of year	796	766	796	766

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 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
22. RESERVES AND RETAINED EARNINGS (cont'd)				
(c) Cash flow hedges				
Balance at beginning of year	(1,542)	(1,364)	(1,542)	(1,364)
Revaluation	755	(254)	755	(254)
Income tax on revaluation (note 16)	(227)	76	(227)	76
Balance at end of year	(1,014)	(1,542)	(1,014)	(1,542)

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	1,348	-	1,348	-
Revaluation	-	1,925	-	1,925
Income tax on revaluation	-	(577)	-	(577)
Balance at end of year	1,348	1,348	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 10(a)).

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
23. 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	8,550	9,319	10,572	10,193
Depreciation and amortisation	5,299	5,607	5,109	5,395
Bad and doubtful debts	2,969	2,322	2,969	2,322
Bad debts recovered	(415)	(504)	(415)	(504)
Gain on disposal of property, plant and equipment	-	(35)	-	(29)
Dividend received	(409)	(409)	(409)	(409)
Increase in provisions	2,170	1,151	2,338	2,853
(Increase)/decrease in loan interest receivable	(600)	119	(600)	119
Increase in other receivables	(8,513)	(31,182)	(7,981)	(4,984)
(Increase)/decrease in inventory	(204)	34,438	-	-
Increase/(decrease) in member interest payable	670	(242)	670	(242)
(Decrease)/increase in accrued expenses and trade and other payables	(2,441)	6,611	(2,785)	3,966
Increase/(decrease) in current tax liabilities	1,016	(530)	961	(539)
Decrease in deferred tax asset	-	(2,342)	-	(2,294)
(Decrease)/increase in deferred tax liabilities	(293)	(147)	172	768
Decrease in sundry debtors and prepayments	234	28	234	17
Fair value adjustment to investment property	(858)	324	-	-
Net cash inflow from operating activities	7,175	24,528	10,835	16,632

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
24. EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure for intangible software contracted for at balance sheet date but not provided for				
– payable not later than one year	1,966	2,696	1,966	2,696
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
– not later than one year	5,858	6,444	5,858	6,444
– later than one and not later than five years	10,937	17,665	10,937	17,665
– later than five years	159	539	159	539
Aggregate lease expenditure contracted for at balance sheet date	16,954	24,648	16,954	24,648

The Bank has a 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%.

25. FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Credit related commitments

Approved but undrawn loans and credit limits	358,434	338,910	358,434	338,910
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The Bank has entered into the following financing arrangements with:

- i. Credit Union Services Corporation (Australia) Limited (Cuscal) and VISA International Services Association to participate in the “VISA card programme”.
- ii. Cuscal to participate in the “redinet scheme”.
- iii. Cuscal to participate in a:
 - derivatives guarantee facility of \$3,000,000 (\$184,197 used as at 30 June 2016), and an
 - overdraft of \$5,000,000 (unused as at 30 June 2016).

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.

On 30 June 2016, the Bank had a credit commitment to the Credit Union Financial Support System Limited (CUFSS) industry support scheme. On 30 June 2016, the Bank ceased to be a participant in this scheme. CUFSS had approved no financial accommodation as at the date of termination.

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$	2015 \$	2016 \$	2015 \$
26. KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	2,944,339	2,615,231	2,944,339	2,615,231
Short-term employee benefits	2,657,119	2,439,445	2,657,119	2,439,445
Post-employment benefits	252,053	175,786	252,053	175,786
Other long-term benefits	35,167	-	35,167	-
	2,944,339	2,615,231	2,944,339	2,615,231

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 (2015: \$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. Total loans outstanding to key management personnel and their related entities as at 30 June 2016 amounted to \$6,092,382 (2015: \$2,708,220). Loans under normal member terms and conditions outstanding to key management personnel and their related entities as at 30 June 2016 amounted to \$4,287,582 (2015: \$1,883,031). During the year loan advances amounted to \$3,943,321 (2015: \$2,263,210) and repayments amounted to \$1,367,414 (2015: \$1,848,629).

Interest on these loans amounted to \$274,707 (2015: \$53,913).

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 discounted loans outstanding as at 30 June 2016 amounted to \$1,804,800 (2015: \$825,189). During the year loan advances amounted to \$1,033,585 (2015: \$1,217,571) and repayments amounted to \$118,580 (2015: \$2,103,863).

Interest on these loans amounted to \$64,581 (2015: \$50,348). All of these loans are secured, except loan balances of \$2,198 (2015: \$24,927).

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 2016 amounted to \$2,749,643 (2015: \$3,269,593).

During the year additional deposits amounted to \$5,806,683 (2015: \$7,494,955) and withdrawals amounted to \$5,856,611 (2015: \$7,539,095). Interest on these deposits amounted to \$34,129 (2015: \$59,951).

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

Notes to the Financial Statements

30 JUNE 2016	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016	2015	2016	2015
	\$000	\$000	\$000	\$000
27. 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	43	7	43	7
relating to current year	175	147	175	147
- other assurance services	118	121	83	83
	336	275	301	237
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
- taxation advice	61	143	61	113
- consulting	30	310	30	310
- other	-	22	-	23
	91	475	91	446
Total auditor's remuneration	427	750	392	683

Notes to the Financial Statements

30 JUNE 2016

28. INVESTMENTS IN JOINT ARRANGEMENTS

The Group has a 33.33% interest in the Eagle Bay Joint Venture (domiciled in Australia) to develop a subdivision of land for residential housing.

The Group'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	
	2016	2015
	\$000	\$000
Cash and cash equivalents	12	20
Trade and other receivables	331	5
Inventories (land held for sale)	1,876	2,309
Share of assets employed in joint operations	2,219	2,334
Other liabilities	329	306
Borrowings	-	237
Share of liabilities employed in joint operations	329	543

The income and expenses related to the Group'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:

Revenue from sale of property developments	556	422
Share of income in joint operations	556	422
Property development costs	481	311
Other expenses	279	207
Share of expenses in joint operations	760	518

Notes to the Financial Statements

30 JUNE 2016

29. 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 intercompany balances, except for balances with securitisation trusts and with P&N Landreach Pty Ltd, are non-interest bearing. Some subsidiaries maintain separate deposit accounts with the Bank under normal commercial terms.

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

	POLICE & NURSES LIMITED	
	2016	2015
	\$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	21,413	16,462
Interest expense	35,320	29,708
Dividend revenue	600	-
Aggregate amounts receivable from entities in the wholly-owned Group at balance sheet date	38,396	34,943

Notes to the Financial Statements

30 JUNE 2016

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

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

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

Notes to the Financial Statements

30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate sensitivity analysis

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

	CONSOLIDATED				
	Carrying amount	+100bp		-100bp	
		Income statement	Other movements in equity	Income statement	Other movements in equity
	\$000	\$000	\$000	\$000	\$000
2016					
Cash and cash equivalents	164,351	1,619	-	(1,552)	-
Due from financial institutions	341,378	3,402	-	(3,402)	-
Loans (i)	3,162,776	27,101	-	(27,101)	-
Derivatives	(1,448)	-	248	-	(248)
Members' deposits (ii)	(2,701,103)	(2,834)	-	2,834	-
Borrowings	(747,195)	(7,472)	-	7,472	-
Total increase / (decrease)	218,759	21,816	248	(21,749)	(248)
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)

Notes to the Financial Statements

30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (cont'd)

	POLICE & NURSES LIMITED				
	Carrying amount	+100bp		-100bp	
		Income statement	Other movements in equity	Income statement	Other movements in equity
	\$000	\$000	\$000	\$000	\$000
2016					
Cash and cash equivalents	110,060	1,239	-	(1,172)	-
Due from financial institutions	341,378	3,402	-	(3,402)	-
Loans (i)	3,163,989	27,101	-	(27,101)	-
Derivatives	(1,448)	-	420	-	(420)
Members' deposits (ii)	(2,702,424)	(2,834)	-	2,834	-
Borrowings	(306,179)	(3,062)	-	3,062	-
Due to controlled entities	(447,838)	(9,706)	-	9,706	-
Total increase / (decrease)	157,538	16,140	420	(16,073)	(420)
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)

- (i) 1% shift applied to the value of variable loans held at year end calculated on \$2,710,106,000 (2015: \$2,185,542,000). The remaining balance represents fixed rate loans for 2015/2016, 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 \$1,100,091,000 (2015: \$1,028,604,000). The remaining balance represents fixed rate deposits for 2015/2016, which are not subject to interest rate movements for the period.

Notes to the Financial Statements

30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (cont'd)

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Fair value estimation - interest rate swaps (liability)	1,448	2,203	631	2,203

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

Liquidity support is available in the form of \$10,000,000 (2015: \$10,000,000) of overdraft facilities, of which \$5,000,000 (2015: \$5,000,000, undrawn) is with Cuscal and \$5,000,000 intra day overdraft facility (2015: \$5,000,000, undrawn) is with Bankwest. Both these facilities were undrawn as at 30 June 2016.

Also maintained by the Bank are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of \$350,000,000 (2015: \$75,000,000), of which \$67,700,000 (2015: \$75,000,000) was available at 30 June 2016; and
- a self securitisation facility under the Pinnacle Series Trust 2014-SST of \$550,000,000 (2015: \$365,100,000). The A Notes (AAA Rated) of \$489,500,000 are available for repo with the RBA as a source of contingent liquidity if required in the event of a liquidity crisis scenario.

Notes to the Financial Statements

30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (cont'd)

The Group and the Bank had access to the following undrawn borrowing facilities at 30 June 2016:

	CONSOLIDATED		POLICE & NURSES LIMITED	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Floating rate				
Expiring within one year (overdraft facilities)	10,000	10,000	10,000	10,000
	10,000	10,000	10,000	10,000

	CONSOLIDATED			
	On demand \$000	Less than 3 months \$000	3 to 12 months \$000	1 to 5 years \$000
Maturities of financial liabilities				
2016				
Borrowings	-	253,416	52,768	441,011
Members' deposits	1,100,091	1,050,618	469,684	80,710
Derivative financial instruments	-	55	467	926
	1,100,091	1,304,089	522,919	522,647
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

	POLICE & NURSES LIMITED			
	On demand \$000	Less than 3 months \$000	3 to 12 months \$000	1 to 5 years \$000
Maturities of financial liabilities				
2016				
Borrowings	-	253,416	52,763	-
Members' deposits	1,101,412	1,050,618	469,684	80,710
Derivative financial instruments	-	55	467	926
	1,101,412	1,304,089	522,914	81,636
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

Notes to the Financial Statements

30 JUNE 2016

30. 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.

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

Notes to the Financial Statements

30 JUNE 2016

30. FINANCIAL RISK MANAGEMENT (cont'd)

2016	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 (managed)
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Derivatives	(1,448)	(1,448)	-	-	-	-	-
Fully performing loans							
Home loans	2,783,312	2,370,153	391,871	21,288	-	-	-
Secured overdrafts	42,684	42,432	247	5	-	-	-
Commercial loans	62,014	4,198	1,338	9,343	28,416	12,569	6,150
Personal loans	46,363	-	-	-	46,363	-	-
Unsecured overdrafts and credit cards	20,516	-	-	-	-	20,516	-
Total fully performing loans	2,954,889	2,416,783	393,456	30,636	74,779	33,085	6,150
Past due loans							
Home loans							
1-7 days	31,418	27,680	3,345	393	-	-	-
8-30 days	30,022	22,427	7,000	595	-	-	-
31-60 days	4,376	4,137	239	-	-	-	-
61-89 days	3,558	2,703	389	466	-	-	-
Total	69,374	56,947	10,973	1,454	-	-	-
<i>Fair value security held (1)</i>	120,299						
Secured overdrafts							
31-60 days	61	61	-	-	-	-	-
<i>Fair value security held (1)</i>	428						
Personal loans							
1-7 days	1,183	-	-	-	1,183	-	-
8-30 days	1,340	-	-	-	1,340	-	-
31-89 days	470	-	-	-	470	-	-
Total (3)	2,993	-	-	-	2,993	-	-
Unsecured overdrafts and credit cards							
1-7 days	5,996	-	-	-	-	5,996	-
Total past due loans	78,424	57,008	10,973	1,454	2,993	5,996	-
Impaired loans							
Home loans							
90 days plus	7,011						
<i>Fair value security held (1)</i>	5,428						
Commercial loans							
90 days plus	16,098						
<i>Fair value security held (2)</i>	10,817						
Personal loans							
90 days plus	180						
Unsecured overdrafts and credit cards							
90 days plus	1,222						
Total impaired loans	24,511						
Securitised loans	109,951						
Total loans portfolio	3,167,775						

Notes to the Financial Statements

30 JUNE 2016

30. 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 (managed)
	\$000	\$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	-	-	-	-	-
Total	676	676	-	-	-	-	-
Fair value security held (1)	2,525						
Commercial loans							
8-30 days	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	-	-
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						
Securitized loans	215,272						
Total loans portfolio	2,618,993						

(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

30. 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 members while maintaining a sound and viable business through the effective management of its risks. The actual level of capital adequacy is calculated every month and reported to the Board, to ensure compliance with the minimum capital ratio. The actual level of capital adequacy is also calculated every quarter and reported to APRA.

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	
	2016 Unaudited	2015 Audited	2016 Unaudited	2015 Audited
Capital Adequacy ratio as at 30 June	14.44%	15.51%	14.55%	16.03%

Notes to the Financial Statements

30 JUNE 2015

31. PRIOR YEAR RESTATEMENT

The Bank and the majority of its controlled entities are within the same tax consolidated group, with the Bank as the head entity. Under this arrangement tax amounts are measured as if each entity in the tax consolidated group is a stand-alone taxpayer. During the year, the Bank investigated the historical accounting treatment for the taxation of dividends received from controlled entities since the implementation of tax consolidation in 2004. The investigation identified that \$5,659,000 of tax on historic intragroup dividends had been incorrectly included in the Bank's stand-alone financial statements which resulted in an over provision of income tax expense. The prior year restatement has no impact on the Group results or the amount of tax payable as all intragroup dividends and tax were correctly eliminated for the consolidated financial statements.

POLICE & NURSES LIMITED

	2015 \$000	Increase/ (decrease) \$000	2015 *restated \$000
Balance Sheet (extract)			
Due from controlled entities	39,876	5,659	45,535
Total assets	3,002,228	5,659	3,007,887
Net assets	242,081	5,659	247,740
Retained earnings	21,509	5,659	27,168
Total members' funds	242,081	5,659	247,740
Statement of Changes in Equity (extract)			
Total members' funds (equity) at the beginning of the financial year	230,718	5,659	236,377
Profit for the year	11,363	-	11,363
Total members' funds (equity) at the end of the financial year	242,081	5,659	247,740

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 22 to 67 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's and Bank's financial position as at 30 June 2016 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

29 August 2016
PERTH WA

Independent Auditor's Report



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

Report on the financial report

We have audited the accompanying financial report of Police & Nurses Limited (the Bank), which comprises the balance sheets as at 30 June 2016, 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

Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840

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Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report (cont'd)



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

Auditor's opinion

In our opinion

- (a) the financial report of Police & Nurses Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Bank's and consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date, and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

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

PricewaterhouseCoopers

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

Justin Carroll
Partner

Perth
29 August 2016

Police & Nurses Limited

Head Office

Level 7, 130 Stirling Street
Perth WA 6000
PO Box 8609
Perth BC WA 6849
Tel: 13 25 77

Branches

Belmont

Shop 72a Belmont Forum Shopping Centre
227 Belmont Avenue Belmont
Western Australia 6105

Booragoon

Suite 10 Riseley Corporate Centre
135 Riseley Street Booragoon
Western Australia 6154

Bunbury

Unit 3, 11 Sandridge Road, East Bunbury
Western Australia 6230

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 4, 20-24 Sholl Street, 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

*We plan to relocate to 181 St Georges Terrace
by early 2017*

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 Warwick Grove S/Centre
Corner Erindale & Beach Road Warwick
Western Australia 6024

Whitfords

Shop 158 Westfield Whitford City S/Centre
Corner Whitfords & Marmion Avenue Hillarys
Western Australia 6025

