policebank
member owned banking

ANNUAL REPORT

2013

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MISSION STATEMENT

Police Bank is a community of Members, Directors and Staff who together form an important and integral part of the life of Police, family and associated community groups.

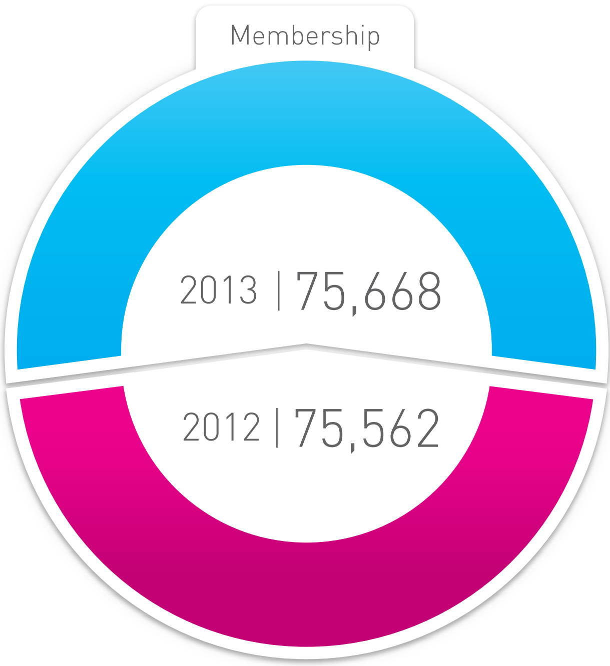
Directors and Staff operate in the interest of all Members according to the following key values:

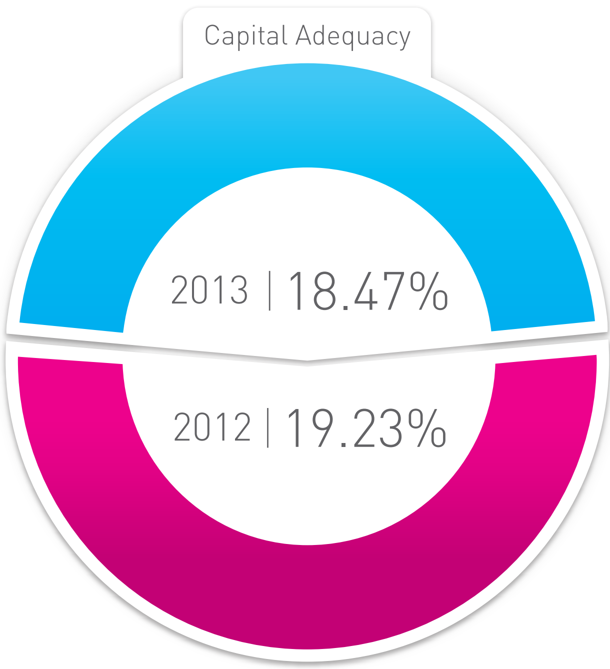
- A flexible and caring response to Members' needs;
- Honouring excellence in relationships between and among Members, Directors and Staff;
- Personal honesty and integrity.

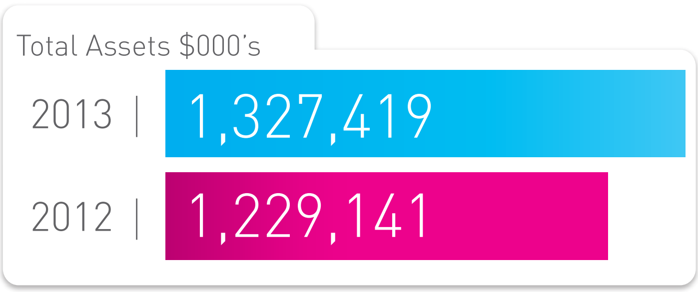
We provide personal attention to the financial well-being of each Member through flexible products and services in a competitive environment combined with prudential financial management in pursuing appropriate levels of growth.

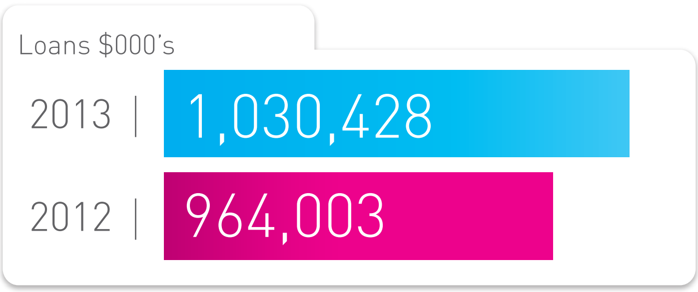
We work together in building the Police Bank to become the best in Member service, range of relevant products and services, management practices and financial strength.

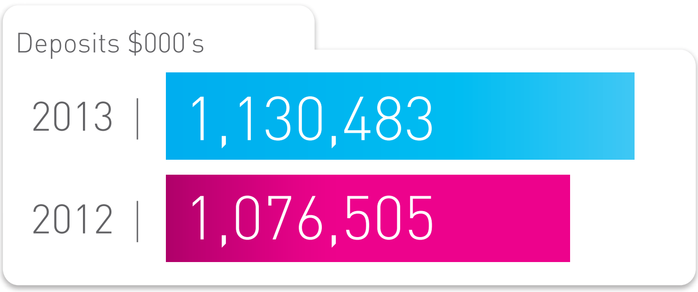
KEY STATISTICS

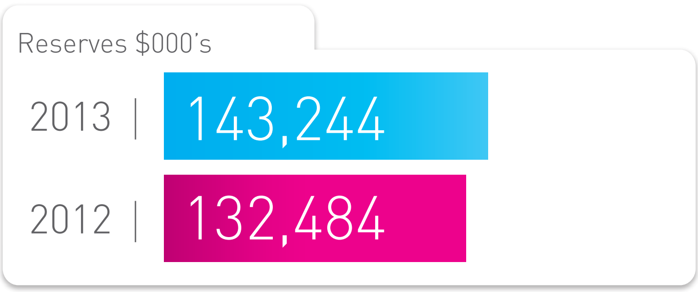












DIRECTORS' REPORT

Your Directors submit the Financial Accounts of the Bank for the financial year ended 30 June 2013.

Directors' Disclosures

The names of Directors in office at the date of this report, or who held office during the course of the financial year, are:

David Charles Walton (Chairman)
Raff Del Vecchio (Deputy Chairman)
Paul Thomas Biscoe[1]
Colin James Dyson[2]
Geoffrey Richard Green
Anthony Raymond Lauer
Graham James Loughlin[3]
Gregory John McKenna[4]
Kenneth Edward Moroney[5]
Robert John Redfern[6]
Lloyd William Taylor

[1] Paul Biscoe retired from the Board as at 29 November 2012.

[2] Colin Dyson became a Member Elected Director as at 29 November 2012.

[3] Graham Loughlin's tenure as Board Appointed Director expired on 28 April 2013.

[4] Greg McKenna commenced as a Board Appointed Director in July 2012.

[5] Ken Moroney retired from the Board as at 1 July 2013.

[6] Robert Redfern was appointed to the Board on 2 July 2013 to fill a casual vacancy arising from the retirement of Ken Moroney.

	Board		Audit Committee		Other Committees	
	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended
Walton	11	11	3	3	2	2
Del Vecchio	11	11	3	3	5	5
Biscoe	5	4	-	-	8	8
Dyson	6	6	2	2	2	2
Green	11	11	3	3	5	4
Lauer	11	8	-	-	13	8
Loughlin	8	6	4	4	-	-
McKenna	11	11	2	2	-	-
Moroney	11	11	-	-	11	11
Redfern	-	-	-	-	-	-
Taylor	11	11	2	2	15	13

Directors also attended a 1 day Strategic Planning Workshop on Sunday, 20 January 2013 and a weekend planning session on Saturday 24 & Sunday 25 May 2013 to formulate the Strategic Plan for 2013-2018 and Business Plan for 2013-2014.

Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 33 of the financial report.

Indemnification and Insurance

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the Bank against any costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as an Officer of the Bank. The Officers of the Bank covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Bank.

Share Options

The Bank has not issued any options over shares. All shares issued by the Bank are withdrawable shares.

Principal Activities

The principal activities of the Bank during the year were the provision of financial and associated services to Members. There were no significant changes in the principal activities during the year.

Operating Results

The Bank's profit after providing for income tax and Non Controlling Interest amounted to $10,671,511. Assets increased during the year by $98.3 from $1,229.1M to $1,327.4M. The year's growth had no impact on the capital adequacy ratio which is 18.47%. At 18.47% the capital adequacy ratio remains well above the statutory minimum of 8%. The Bank loan portfolio grew by 6.9% and deposits grew by 5.0%.

The Bank continues to be a strong performing institution and these results were achieved in an environment where the ongoing effects of the global financial crisis continue, and competition in the domestic banking industry continues to be intense with depositors benefiting from higher margins. The results reflect the continuing support of the Membership for the products and services offered by the Bank and the ongoing attention given by both the Board and Management to Member service, relevant products and the control of costs. It is envisaged that the results for the year ending 30 June 2014 will be similar to those achieved in 2013.

Dividends

Dividends paid or declared by the Consolidated Group since the end of the previous financial year was $100,000 paid to the shareholders of Chelsea Wealth Management Pty Ltd. Police Bank Ltd is the majority shareholder of Chelsea Wealth Management Pty Ltd. The dividend was 100% franked.

Review of Operations

The results of the Bank's operations from its activities of providing financial services to Members did not change significantly from those of the previous year.

During the year a number of significant activities and events took place:

- **Annual Employee Awards.** *Star Achievers* are awarded to staff who consistently deliver an outstanding level of service, demonstrating a commitment above and beyond the normal call of duty. Congratulations go out to our 2013 winners:

  Angela Grierson – Loan Services Department
  Annette Heriot – Assistance Centre
  Megan Hourigan – Canberra Branch
  Josephine Kirsten – Norwest Branch
  Berhan Korcarevski - Online Member Services
  Kylie McIntyre – Transaction Services Goulburn

  In addition to the above, the Police Bank *Young Achiever* prize is awarded to acknowledge, encourage and most importantly promote the positive achievements of young employees of the Bank. Congratulations to Jembie Venegas from Finance and Brigitte Webber from Information Technology our 2013 winners.

- **Police Bank Ltd.** Members passed a resolution on 5 September 2012 to enable Police Credit Union to become Police Bank Ltd (trading as Police Bank) from 1 December 2012. As this is only a name change with the mutual structure of the organisation unaltered, there will be no fundamental change to the operation or philosophy of the Bank.

- **Director Retirement.** Paul Biscoe retired from the Board having served as a Director for 12 years. The Board would like to acknowledge Paul's valuable contribution and wish him a long and happy retirement.

- **Director Appointment.** Greg McKenna joined the Board in July 2012 as a 'Board Appointed Director'. This position was created to widen the Board's skill base. Greg has made a positive contribution to the Board which is proving beneficial.

- **Director Elected.** Detective Superintendent Col Dyson (Commander of the NSWPF Fraud & Cybercrime Squad) was successfully elected by the Members on 29 November 2012. Col's appointment was very much welcomed as he brings a high level of experience to the Board.

- **Continued Sponsorship Association with NSW Police Legacy.** The Bank during the year continued our sponsorship association with Police Legacy. The Bank is recognised as a 'Major Sponsor' providing financial and operational support. Police Bank is proud to assist Legacy to help continue their excellent work assisting police families.

- **Supporter of Credit Union Foundation Australia (CUFA).** Police Bank is a 'Silver Sponsor' of the Foundation. CUFA develops community access to affordable financial services in the Asia-Pacific region, working cooperatively at grass-roots through to government levels. Through programs and activities, CUFA aims to create sustainability, improve lives and relieve poverty.

- **New Police Bank Branch.** The Police Bank operation continues to expand with the opening during the year of an additional Branch in Norwest. This modern facility provides our current and future Members with a more convenient banking service and is part of our strategy to continue to expand our product offerings.

- **Additional Products/Enhancements:**
  Industry Product Awards. Police Bank received Awards from independent rating agencies during the year. Our First Home Saver Account was awarded the 'Best First Home Saver Account' by Money Magazine in the Best of the Best Awards 2013. It was recognised for its nil/low account fees and high interest paid on savings.

  Canstar also awarded Police Bank Most Satisfied Customers in the 'Non Major Banks' category. Based on market research, it was highlighted that not only are Police Bank Members most satisfied overall, but are also happier when asked specific questions about Branch Service, Call Centre Service, Internet Banking, Efficiency in Dealing with Enquiries, and Friendliness.

  Core Banking Upgrade. Police Bank undertook a major project upgrading the core banking software application in May 2013 to the latest release known as 'Ultracs 4.0'. The Bank converted to the original Ultracs application in June 2002. The upgrade provided numerous benefits ranging from rationalising software to new functionality.

  Fraud Product Enhancement. Police Bank's fraud staff closely monitor Member transaction behaviour such as ATM and Visa Card transactions for any possible fraudulent activity. 'Fraud Interceptor' is a monitoring tool that facilitates contact with our Members to manage any illegitimate or fraudulent behaviour on accounts.

  Land Rent Scheme Loan. A new home loan was launched during the year for the purchase of property or to build a new home approved under the ACT Government Land Rent Scheme.

  Enterprise Agreement. Police Bank staff, in conjunction with the Finance Sector Union, negotiated and agreed to our 3rd Enterprise Agreement. The Agreement was also endorsed by the Fair Work Commission. The approval and implementation of the Agreement is an excellent outcome for all employees and confirms Police Bank as an Employer of Choice.

  Development of Social Media sites. Our Members are steadily adopting social media as an additional communication channel to interact with the Bank. Both our Facebook and Twitter sites have been further developed during the year and it is anticipated that continued growth will occur as more Members become familiar with social media.

- **Events:**
  Annual Police Games. Police Bank was once again a proud sponsor of the NSW Police Games. Held annually in March, the Games stage around 30 sports with the theme of encouraging integrity, fair play, team work and co-operation. The Games are a wonderful opportunity for Police Bank to support many of our Members and promote our services.

  Family Fun Days. This year two Family Fun Days were held at Luna Park. The event is designed to provide an opportunity to show appreciation to Members for their support of Police Bank. In all, over 600 Members took the opportunity to enjoy a family oriented day at an iconic venue.

  Annual Police Bank Charity Golf Day. Police Bank held its Annual Charity Golf Day in May 2013 at North Ryde Golf Course. The successful event was well supported by Members with all money raised from the day being donated to the Bryson Anderson Memorial Fund and the Post Trauma Support Group.

- **Police Bank Sponsorship Program.** Police Bank is strongly committed to the Police Community and through our sponsorship program we generously supported during the year a varied number of Police charities, events and fund raisers. Many of these sponsorships have contributed towards significantly improving the lives of individuals as well as assisting with community projects. Some of the larger sponsorships this year have included the Police Legacy Boxing Tournament and the Police Bank Rugby League Cup.

- Recognition of Police Academic Achievement. In partnership with Charles Sturt University, Police Bank sponsors an academic achievement award at the Goulburn Police Academy recognising student officers who have excelled with their studies.

- Community Employee Engagement. During the year Police Bank staff were active with various initiatives to assist individuals and communities. A number of charities such as Westmead Children's Hospital, Beyond Blue, Cancer Council and the Children's Medical Research Institute all benefited from the fund raising efforts of Police Bank employees.

- Police Bank Green Initiatives. Police Bank is committed to improving the environment by undertaking a number of environmental initiatives. Producing electronic statements, engaging environmentally efficient suppliers, recycling/reduction of paper and a level of self sufficient water and power facilities at the Goulburn Processing Centre are some of the actions currently in place.

- Continuous Operational Improvement. Management has maintained its focus on continuous internal improvements through re-engineering of underlying processes aimed at improving Member service and internal productivity. The desired outcomes are to grow whilst limiting the need for additional capital, keeping cost increases to a minimum and to meet price competition without significantly impacting upon profitability.

Significant Changes In State Of Affairs

There were no significant changes in the state of the affairs of the Bank during the year.

Events Occurring After Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Bank in subsequent financial years, except for:

- Director Retirement. Ken Moroney retired from the Board on 1 July 2013. Ken served as a Director for 19 years, including 5 years as Chairman. The Directors would like to acknowledge Ken's valuable contribution and wish him a long and happy retirement.

- Director Appointment. Robert Redfern was appointed to the Board on 2 July 2013 to fill a casual vacancy arising from the retirement of Ken Moroney.

- Price Competition. Police Bank provides an excellent level of service, which allows it to compete on more than price alone. However, the Board and Management are mindful that competition cannot be ignored and that price is certainly a factor in Members' consideration of their ongoing relationship with the Bank. However, being a mutual organisation and not having to provide dividends for shareholders does allow room to pass on pricing reflective in the marketplace.

- Global Financial Markets. Global turmoil could have a flow-on effect locally and impact on asset prices. Police Bank has no direct exposure to any overseas activity and is well placed to weather any effects of the volatility. Police Bank continues to adopt safe and conservative lending and investment practices.

Likely Developments and Results

The likely developments in the operations of the Bank and the expected results of those operations in the financial year subsequent to the year ended 30 June 2013 are as follows:

The Board of Directors anticipate that the profit will be in the vicinity of 0.70% - 0.85% return on average assets.

Planned capital expenditure on infrastructure amounts to $2.9M for the year ending 30 June 2014. This covers general equipment and core banking upgrades.

No other matter, circumstances or likely developments in the operation has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) The operations of the Bank;

(ii) The results of those operations; or

(iii) The state of affairs of the Bank.

In the financial years subsequent to this financial year.

Auditor's Independence Declaration
To the Directors of Police Bank Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Police Bank Ltd for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Partner - Audit & Assurance

Sydney, 26 September 2013

Information on Directors and Secretary

Mr D C Walton	**Chairman**
	Remuneration Committee (Chairman)
Age	48
Qualifications	Corporate Governance Program, Harvard Business School
	Company Directors Course Diploma, Australian Institute of Company Directors
	Master of Management & Leadership
	Bachelor of Business
Experience	Auditor, Retired Police Association
	Auditor, Police RSL Sub-Branch
	Fellow, Australian Institute of Company Directors
	Corporate Member, Australasian Mutuals Institute
	Auditor, Police Provident Fund
	Former Manager Academic Programs – International, Australian Institute of Police Management
	Former Detective Inspector, NSW Police Force
	Former Detective Fraud Squad
	Former Casual Academic Staff Member, Charles Sturt University (Graduate School of Policing)
	Former Casual Academic Staff Member, University of Western Sydney (Policing Studies)
	Former Executive Manager, Internal Audit, Investigations & Risk Management, Energy Australia
	Board Member since 2001
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr R Del Vecchio	**Deputy Chairman**
	Corporate Governance Committee (Chairman)
	Audit Committee
	Risk Management & Compliance Committee
Age	44
Qualifications	Company Directors Course Diploma, Australian Institute of Company Directors
	Graduate, Australian Institute of Company Directors
	Post Graduate Diploma in Criminology
	Fellow, Australian Institute of Company Directors
	Bachelor of Policing
	Member, Australasian Mutuals Institute Executive Officer - Trustees of Mory Aikenhead Ministries
Experience	Former Head of Administrative Services, Police Association of NSW
	Former Chairman, Police Shop of NSW
	Former Director, Police Legacy NSW
	Former Member, Police Superannuation Advisory Board
	Member, Retired Police Association
	Senior management positions within financial institutions – specialising in fraud identification, risk management & card operations
	Co-author of ACTU publication on Financial Best Practices in Trade Unions (nationally published)
	Board Member since April 2008
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr P T Biscoe	**Director (retired November 2012)**
	Credit Committee
	Remuneration Committee
	Corporate Governance Committee
Age	62
Qualifications	Member of the Australasian Mutuals Institute
Experience	President of the Retired Police Association
	Police Legacy Legator
	Police RSL Sub-Branch Member
	Board Member since 2000
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr C J Dyson	**Director**
	Audit & Risk Committee
	Remuneration Committee
Age	59
Qualifications	Advanced Certificate, Personnel Management (TAFE 1991)
	Graduate, NSWPF Command Development Program (1997)
	Graduate Certificate Management (Wollongong University 1999)
	Graduate, NSWPF Strategic Leadership Program (2011)
Experience	Commander of the NSWPF Fraud & Cybercrime Squad
	Detective Superintendent of Police
	Member, International Association of Financial Crimes Investigators
	Member, Association of Certified Anti-Money Laundering Specialists
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr G R Green

Director

	Audit & Risk Committee
	Corporate Governance Committee
Age	67
Qualifications	LL.B. (Hons)
	Barrister of the Supreme Court of NSW
	Fellow, Australasian Mutuals Institute
Experience	Former Secretary Legal & Senior Vice President of the Police Association of NSW
	Life Member, Police Association of NSW
	Member, Retired Police Association
	Member, Australian Institute of Company Directors
	Board Member since 1989
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr A R Lauer

Director

	Credit Committee
	Remuneration Committee
Age	77
Qualifications	Diploma in Criminology (University of Sydney) (1973)
	Graduate, NSW Police Senior Executive Course (Merit) (Australian Police College) (1986)
	Graduate, Senior Executive Police Officer Course (Australian Police Staff College) (1987)
	Graduate, Seventeenth National Executive Institute – Federal Bureau of Investigation Academy (Quantico, Virginia, USA) (1994)
	Honorary Fellow, NSW Police Academy (1996)
	Associate Fellow, Australian Mutuals Institute (1996)
Experience	Career Police Officer (1955 – 1996)
	President, Police Association of NSW (1979 – 1982)
	Commissioner of Police 1991 – 1996
	Board Member since 1997
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr G J Loughlin

Appointed Director (tenure expired April 2013)

	Audit & Risk Committee
Age	63
Qualifications	Bachelor of Arts, Hons (Adelaide)
	Graduate Certificate Management (Monash University - Mt. Eliza)
	Fellow, Australian Institute of Company Directors
	Subscriber, Chartered Secretaries Australia
	Fellow, Australian Institute of Management
Experience	
Current	Head of Group Strategic Development & Distribution and Company Secretary, DataDot Technology Limited
	Director - DataDot Technology (UK) Limited
	Director - DataDot Technology (Asia) Pte. Ltd.
	Director - DataDot Technology (India) Pvt. Ltd.
	Director - DataDot N.Z. Pty. Ltd.
	Appointed Director from April 2008 to April 2013
Previous	Director, Data Advantage Limited
	Chairman, AFCUL Service Corporation Limited (now CUSCAL Ltd)
	General Manager, Bank Services Corporation (Australia) Limited
	Member, Australian Housing Council
	Member, Australian Payments System Council
	Director, Jetset Tours (SA) Pty. Ltd.
	Member, SA Bank Stabilization Board
	Executive Assistant, SA Premier & Treasurer
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr G J McKenna | **Appointed Director**

	Audit & Risk Committee (Chairman)
Age	44
Qualifications	Bachelor of Business (Banking & Finance) 1996 Monash University
	Master of Applied Finance 2002
	FINSIA – Senior Associate 2006
	ASIC – AFSL Holder of Foreign Exchange and Derivatives 2007
	Company Directors Course Diploma, Australian Institute of Company Directors
	Member Australian Institute of Company Directors
Experience	Director Lighthouse Securities (2005 – present)
	Appointed Director July 2012
	Treasurer Newcastle Permanent Building Society (2008 – 2012)
	Treasury Manager Newcastle Permanent Building Society (2007-2008)
	Executive Director CT Money Group (2004 – 2006)
	Head of Currency Strategy National Australia Bank (2000 – 2004)
	Currency Strategist Westpac Banking Corporation (1998 – 2000)
	Portfolio Manager Morgan Grenfell Asset Management (1993 – 1998)
	Dealer Capital Markets J.B Were Capital Markets Ltd (1992 – 1993)
	Dealer Capital Markets Westpac Banking Corporation (1988 – 1992)
Interest in Shares	$10.00 in ordinary shares in the Police Bank

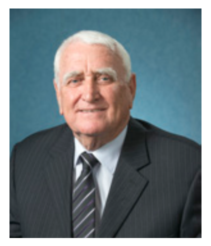
Mr K E Moroney | **Director (retired July 2013)**

	Credit Committee
	Remuneration Committee
	Corporate Governance Committee
Age	67
Qualifications	Doctor of the University, Hons Causa (Charles Sturt University)
	Master of Arts (Macquarie University)
	Diploma Justice Administration (Charles Sturt University)
	Graduate Diploma Management (Macquarie University)
	Company Directors Course (Australian Institute of Company Directors)
Other Qualifications	Officer in the Order of Australia (General Division)
	Former Commissioner, NSW Police
	Former Deputy President, Police Association of NSW
	Life Member, Police Association of NSW
	Holder of Australian Police Medal for Distinguished Service
	Member, Australasian Mutuals Institute
	Graduate, Federal Bureau of Investigation Academy (Quantico, Virginia, USA)
	Board Member since 1994
Other Responsibilities	Patron, Lifeline (Macarthur)
	Patron, Youth Off the Streets
	Chairman & Presiding Officer, Australian Graduate School of Policing, and Security
Experience	Member, State Parole Authority
	Member, Board & State Council St John's Ambulance NSW
	Member, Conduct Division, Judicial Commission
	Member, Law Enforcement Advisory Panel, World Bank
	Member, Oncology Children's Foundation
	Member, NSW Police Legacy Board
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr R J Redfern | **Director (Appointed to the Board 2 July 2013)**

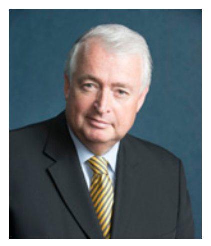
Age	51
Qualifications	Executive Masters in Public Administration Bachelor of Laws Bachelor of Economics Diploma in Applied Criminology and Police Management
Other Qualifications	Awarded the Australian Police Medal Awarded National Medal Awarded the Commissioners Commendation for Service
Experience	Current Commander at Parramatta LAC Member, Board of the Parramatta Mission Member, Steering Committee of the Parramatta Criminal Justice Clinic Solicitor, Supreme Court NSW Solicitor, High Court of Australia Member, Law Society of NSW Member, Australian Corporate Lawyers Association Head of Civil Law Commander, State Audit Branch Director of Legal Services Board Member Since July 2013
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr L W Taylor | **Director**



	Credit Committee (Chairman) Corporate Governance Committee
Age	73
Qualifications	Mediator, Australian Commercial Disputes Centre Fellow, Australasian Mutuals Institute Member Australian Institute of Company Directors
Experience	Former President, Federation of Police Credit Unions (Australia) (1999 – 2006) Convenor, Juvenile Justice (1997 – 2009) Deputy Chairman, 1992 – 1996, Chairman (1996 – 2001) Former Audit Chairman Former Secretary Administration, Police Association of NSW Former President, Police Association of NSW Life Member, Police Association of NSW Life Member, Police Federation of Australia & New Zealand Board of Management, Retired Police Association Member, Police Education Advisory Committee (1988 – 1996) Member, Police Superannuation Advisory Committee (1986 – 1997) Member, Australian Institute of Company Directors Former Honorary Secretary, Police Legacy Board Member since 1988
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr B A Williams | **Secretary**



Age	58
Qualifications	Master of Business in Finance FCIS
Experience	40 years experience in banking and finance
Directorships	CUFSS Limited Chelsea Wealth Management Pty Limited Chelsea Home Loans Pty Limited

DIRECTORS' DECLARATION

Acknowledgments

In concluding this Report, the Board wishes to acknowledge its appreciation of Bruce Williams, Chief Executive Officer, the Management and staff of the Bank without whose expertise and commitment the achievements of the past year would not have been achieved.

This Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

David C Walton
Chairman
26th September 2013

Raff Del Vecchio
Deputy Chairman

Police Bank Ltd

Directors' Declaration

The Directors of Police Bank Ltd declare that:

1. In the opinion of the directors of Police Bank Ltd:

   a) the financial statements and notes of Police Bank Ltd are in accordance with the Corporations Act 2001, including

      i) giving a true and a fair view of its financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

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

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

2. The financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.

David C Walton
Chairman
26th September 2013

Raff Del Vecchio
Deputy Chairman

INDEPENDENT AUDITOR'S REPORT

To the Members of Police Bank Ltd:

We have audited the accompanying financial report of Police Bank Ltd (the "Company"), which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to 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 Company's preparation of the financial report that gives a true and fair view 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 Company'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 opinion.

Independence

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

Auditor's opinion

In our opinion:

a. the financial report of Police Bank Ltd is in accordance with the Corporations Act 2001, including:

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

    ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Partner - Audit & Assurance
Sydney, 26 September 2013

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2013

		Consolidated		Police Bank	
		2013	2012	2013	2012
		$	$	$	$
	Note				
Interest Revenue	2a	79,200,032	84,588,279	79,199,104	84,586,914
Borrowing Costs	2b	42,853,658	47,853,590	42,853,658	47,853,590
Net Interest Revenue		36,346,374	36,734,689	36,345,446	36,733,324
Other revenue from ordinary activities	3	7,761,275	7,621,255	7,163,457	7,171,069
Impairment losses on Loan Receivables from Members	4a	583,450	814,504	583,450	814,504
Fees and Commission		5,398,675	5,903,355	5,398,675	5,903,355
General Administration					
- Personnel expenses		14,042,973	12,943,465	13,766,433	12,943,465
- Depreciation and amortisation		1,154,530	1,445,482	1,141,905	1,436,236
- Lease expenses		1,922,233	1,841,403	1,922,233	1,841,403
- Other administration expenses		3,719,546	3,283,756	3,506,474	2,905,974
Other operating expenses		3,016,264	3,474,849	3,016,264	3,474,849
Operating Profit before Income Tax		14,269,978	14,649,130	14,173,469	14,584,607
Income Tax Expense	5	4,198,849	4,304,095	4,136,757	4,280,984
Operating Profit after Income Tax		10,071,129	10,345,035	10,036,712	10,303,623
Other comprehensive income that will be eventually recognised in income					
- Changes in the fair value of cash flow hedges		596,581	(1,462,483)	596,581	(1,462,483)
- Gain on Available for Sale Investment		3,801	-	3,801	-
Total comprehensive income		10,671,511	8,882,552	10,637,094	8,841,140
Attributable to:					
Non Controlling Interests		761	(7,247)	-	-
Members of the parent entity		10,670,750	8,889,799	10,637,094	8,841,140
		10,671,511	8,882,552	10,637,094	8,841,140

The accompanying notes form part of these accounts and are to be read in conjunction therewith.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

Police Bank

	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
Balance 1 July 2011	328,740	80,671,580	2,543,732	2,996,306	293,566	1,430,212	35,316,922	123,581,058
Operating Profit for the year	-	10,303,623	-	-	-	-	-	10,303,623
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	11,540	(11,540)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(274,000)	-	274,000	-	-	-	-
- Revaluation Reserve	-	-	-	-	(24,691)	-	-	(24,691)
Cash Flow Hedge Reserve	-	-	-	-	-	-	(1,462,483)	(1,462,483)
Balance 30 June 2012	340,280	89,489,663	2,543,732	3,270,306	268,875	1,430,212	35,054,439	132,397,507
Balance 1 July 2012	340,280	89,489,663	2,543,732	3,270,306	268,875	1,430,212	35,054,439	132,397,507
Operating Profit for the year	-	10,036,712	-	-	-	-	-	10,036,712
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	13,160	(13,160)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(130,000)	-	130,000	-	-	-	-
- Dividends Paid	-	-	-	-	-	-	-	-
Gain on Available for Sale Investment	-	3,801	-	-	-	-	-	3,801
Cash Flow Hedge Reserve	-	-	-	-	-	-	596,581	596,581
Balance 30 June 2013	353,440	98,187,016	2,543,732	3,400,306	268,875	1,430,212	36,851,020	143,034,601

Consolidated

	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
Balance 1 July 2011	328,740	80,704,175	2,543,732	2,996,306	293,566	1,430,212	35,329,051	123,625,782
Operating Profit for the year	-	10,345,035	-	-	-	-	-	10,345,035
Profit attributable to non-controlling interest		(7,247)	-	-	-	-	7,247	-
Non Controlling Interest	-	-	-	-	-	-	-	-
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	11,540	(11,540)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(274,000)	-	274,000	-	-	-	-
- Revalution Reserve	-	-	-	-	(24,691)	-	-	(24,691)
Cash Flow Hedge Reserve	-	-	-	-	-	-	(1,462,483)	(1,462,483)
Balance 30 June 2012	340,280	89,556,423	2,543,732	3,270,306	268,875	1,430,212	35,073,815	132,483,643
Balance 1 July 2012	340,280	89,556,423	2,543,732	3,270,306	268,875	1,430,212	35,073,815	132,483,643
Operating Profit for the year	-	10,071,129	-	-	-	-	-	10,071,129
Capital Contribution by non-controlling interest	-	-	-	-	-	-	108,407	108,407
Profit attributable to non-controlling Interest	-	(761)	-	-	-	-	761	-
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	13,160	(13,160)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(130,000)	-	130,000	-	-	-	-
- Dividends Paid	-	(20,000)	-	-	-	-	-	(20,000)
Gain on Available for Sale Investments	-	3,801	-	-	-	-	-	3,801
Cash Flow Hedge Reserve	-	-	-	-	-	-	596,581	596,581
Balance 30 June 2013	353,440	98,267,432	2,543,732	3,400,306	268,875	1,430,212	36,979,564	143,243,561

STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $	Police Bank 2013 $	Police Bank 2012 $
Assets					
Cash and Liquid Assets	6	16,698,107	29,127,209	16,630,570	29,092,177
Receivables due from other Financial Institutions	7	118,000,000	105,000,000	118,000,000	105,000,000
Accrued Receivables	8	4,150,102	7,478,926	4,062,418	7,438,707
Investment Securities	9	145,444,243	112,942,879	145,444,243	112,942,879
Loans and Advances	10&11	1,027,693,431	961,657,041	1,027,693,431	961,657,041
Available for Sale Investments	12	8,183,418	7,724,296	8,705,812	7,724,303
Property Plant and Equipment	13	4,174,451	2,821,445	4,145,170	2,781,197
Intangible Assets	14	1,298,431	567,097	359,758	513,546
Taxation Assets	15	1,776,608	1,821,909	1,776,608	1,821,909
Derivative Fair Value		-	-	-	-
Total Assets		1,327,418,791	1,229,140,802	1,326,818,010	1,228,971,759
Liabilities					
Payables to other Financial Institutions	16	34,934,685	-	34,679,411	-
Deposits and Borrowings	17	1,130,482,761	1,076,505,043	1,130,482,761	1,076,505,043
Creditors and other Liabilities	18	12,661,359	14,136,441	12,586,241	14,068,326
Provisions	19	3,218,189	2,973,820	3,218,189	2,973,820
Taxation Liabilities	20	1,732,256	1,299,294	1,670,827	1,284,502
Derivative Fair Value		1,145,980	1,742,561	1,145,980	1,742,561
Total Liabilities		1,184,175,230	1,096,657,159	1,183,783,409	1,096,574,252
Net Assets		143,243,561	132,483,643	143,034,601	132,397,507
Member Funds					
Capital Account	21	353,440	340,280	353,440	340,280
Reserves		45,640,125	44,310,158	45,640,125	44,310,125
Retained Profits		98,267,432	89,556,423	98,187,016	89,489,663
Cash Flow Hedge Reserve		(1,145,980)	(1,742,561)	(1,145,980)	(1,742,561)
Non-Controlling Interest		128,544	19,343	-	-
Total Member Funds		143,243,561	132,483,643	143,034,601	132,397,507

The accompanying notes form part of these accounts and are to be read in conjunction therewith.

STATEMENT OF CASH FLOWS

For Year Ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $	Police Bank 2013 $	Police Bank 2012 $
Cash Flow From Operating Activities					
Interest Received - Loans		66,061,509	69,090,554	66,061,509	69,090,554
Other Income		20,746,771	21,832,442	20,148,025	21,380,891
Dividends Received		455,524	539,106	455,524	539,106
Interest Paid		(44,026,268)	(48,648,243)	(44,026,268)	(48,648,243)
Suppliers and Employees		(24,764,424)	(33,119,301)	(24,307,295)	(32,730,055)
Taxes Paid		(3,707,435)	(3,738,583)	(3,707,435)	(3,738,583)
Net Cash from Revenue Activities	38c	14,765,677	5,955,975	14,624,060	5,893,670
Inflows from Other Operating Activities					
Net Movement in Member Loans		(66,959,919)	(46,270,819)	(66,959,919)	(46,270,819)
Net Movement in Member Shares		(13,160)	(11,540)	(13,160)	(11,540)
Net Movement in Deposits		53,990,878	79,337,826	53,990,878	79,337,826
Net Cash from Operating Activities		1,783,476	39,011,442	1,641,859	38,949,137
Cash Flows from Investing Activities					
Investment Redemption		715,463,989	736,137,927	715,463,989	736,137,927
Proceeds from Sale of Fixed Assets		105,750	180,660	105,750	166,660
Purchase of Investments		(761,424,475)	(802,134,862)	(761,946,869)	(802,134,862)
Purchase of Fixed Assets		(3,292,527)	(954,065)	(2,405,747)	(853,104)
Movement in Reserves		-	(24,691)	-	(24,691)
Net Cash Used in Investing Activities		(49,147,263)	(66,795,031)	(48,782,877)	(66,708,070)
Cash Flow from Financing Activities					
Net Movement in Borrowings		34,934,685	-	34,679,411	-
Net Cash Provided by Financing Activities		34,934,685	-	34,679,411	-
Net Increase (Decrease) in Cash		(12,429,102)	(27,783,589)	(12,461,607)	(27,758,933)
Cash at Beginning of Year		29,127,209	56,910,798	29,092,177	56,851,110
Cash at End of Reporting		16,698,107	29,127,209	16,630,570	29,092,177
Reconciliation of Cash at End of Reporting Period	37a				
Cash		6,098,144	6,627,229	6,030,607	6,592,197
Overdraft		-	-	-	-
Deposits at Call		10,599,963	22,499,980	10,599,963	22,499,980
Total		16,698,107	29,127,209	16,630,570	29,092,177

1. Statement of Accounting Policies

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Police Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets. The accounting policies are consistent with the prior year unless otherwise stated.

REPO securitisation trust consolidation

The Bank has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements. The Bank continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

(i) The trust meets the definition of a controlled entity and,

(ii) As prescribed under the accounting standards, since the Bank has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of the Bank and not de-recognised.

b. Classification and subsequent measurement of financial assets

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss, are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Banks, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Bank.

Financial assets at FVTPL

FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. The Bank currently holds Term deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes, and Bank accepted Bills Of Exchange in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include borrowings, and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

c. Loans to Members

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Bank at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debts is considered unlikely as determined by the Board of Directors.

(i) Interest on Loans - Method of Calculation

Interest charged by the Bank on Members' loans funded before the introduction of the Consumer Credit Code on 1st November 1996, other than Overdrafts, are calculated on the basis of charging interest in the initial month from the date the loan is advanced, and thereafter on the first day of the month on the opening balance. On completion of a loan, a full month's interest is charged on the opening balance for the month in which the loan is finalised. For loans funded after 1st November 1996, the interest is calculated on the basis of the daily balance outstanding and is charged in arrears on the last day of each month.

(ii) Non Accrual Loan Interest

While still legally recoverable, interest is not brought to account as income when the Bank is informed that the Member has deceased, or on impaired loans where recovery of the debt is considered unlikely.

(iii) Loan Fees

Loan establishment fees are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan.

(iv) Transaction Costs

Transaction Costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan.

d. Principles of Consolidation

The consolidated entity's financial statements comprise consolidated accounts of the Bank and its controlled entities. The effects of intercompany balances, transactions and unrealised profits arising between the controlled entities and the Bank are eliminated on consolidation.

e. Property, Plant and Equipment

Property, Plant and Equipment are stated at the lower of cost less depreciation, or recoverable amount. Fixed Assets are depreciated using the straight line method. The following rates are used:

Building	2.50%
Office Equipment	20.00%
EDP Equipment	37.50%
Motor Vehicles	25.00%
EDP Software	37.50%
Office Furniture and Fittings	20.00%
Leasehold Improvements	25.00%

Assets less than $1,000 are not capitalised.

f. Deposits with other Financial Institutions

Term Deposits and Negotiable Certificates of Deposits with other Financial Institutions are unsecured and have a carrying amount equal to their principal amount. Interest is calculated on the daily balance and paid at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis over the expired period of the term of the investment. Interest receivable, but not yet paid, is included in the amount of receivables in the Statement of Financial Position.

g. Investments and Securities

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on the balance sheet date. The gains and losses in fair value are reflected in equity through the asset revaluation reserve.

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

h. Member Savings

(i) Basis for Determination

Member Savings and Term Deposits are quoted at the aggregate amount of monies owing to depositors.

(ii) Interest Payable

Interest is calculated on savings accounts on a daily basis and credited to most account types every six months at the end of June and December. For Term Deposits, interest is calculated on a daily basis at the agreed rate for the appropriate term and is paid as per the conditions of the term account.

i. Provision for Employee Entitlements

Provision is made for the Bank's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Bank based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the Bank to an employee's superannuation fund and are charged to the Statement of Profit or Loss and Other Comprehensive Income as incurred.

j. Loan Impairment

(i) Specific Provision

Losses for impairment loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for doubtful debts is determined by Management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions in the calculation are set out in Note 11.

The APRA Prudential Standards requires a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for Credit Losses (formerly held as a General Provision)

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for Members against the prospect that some Members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral; and
- the concentration of loans taken by employment type
- potential losses in the investment and other assets

(iii) Renegotiated Loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

k. Bad Debts Written Off

Bad debts are written off from time to time as determined by Management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Loans written off are brought to account as an expense in the Statement of Profit or Loss and Other Comprehensive Income. Bad debts are written off against the provision for doubtful debts if a provision for impairment had previously been recognised.

l. Income Tax

The income tax expense shown in the Statement of Profit or Loss and Other Comprehensive Income is based on the operating profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

m. Goods and Services Tax

As a Financial Institution the Bank is Input Taxed on all income except other income from commissions and some fees. An Input Taxed supply is not subject to GST collection, and the GST on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included where applicable GST is collected.

The net amount of GST recoverable from, or payable to the ATO, is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

n. Leasehold on Premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years shall be recognised as part of the interest expense.

o. Intangible Assets

Capitalised software costs that are not an integral part of the associated hardware are classified as intangibles, and are amortised over the useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation of the intangible asset is recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

p. Impairment of Assets

At each reporting date the Bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time of value of money and the risks specific to the assets. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

q. Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

r. Accounting Estimates and Judgements

Management have made judgements when applying the Bank's accounting policies with respect to:

i. De-Recognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 36.

ii. Management have made critical accounting estimates when applying the Bank's accounting policies with respect to the impairment provisions for loans - refer Note 11.

s. New standards applicable for the current year

The Bank applies the current revised accounting standards applicable for financial years commencing the 1 July 2012. There are no new standards applicable for the current financial year.

t. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Bank's assessment of the impact of these new standards and interpretations is set out, see over. Changes that are not likely to impact the financial report of the Bank have not been reported.

AASB reference	Nature of Change	Application Date	Impact on Initial Application
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for the classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 ***Financial Instruments: Recognition and Measurement*** into AASB9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognisation requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2015 year end, the entity has not yet made an assessment of the impact of these amendments. The entity does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments at AASB 9 are first adopted.
AASB 10 (issued August 2012) Consolidated Financial Statements	Introduces a single 'control model' for all entities (SPEs), whereby all of the following conditions must be present: Power over investee (whether or not power used in practice). Exposure, or rights, to variable returns from investee. Ability to use power over investee to affect the entity's returns from investee.	Annual reporting periods commencing on or after 1 July 2013.	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Bank currently consolidates all entities that it controls.
AASB 13 (issued September 2012. Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 31 December 2013, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013. When this standard is adopted for the first time on 1 January 2013, additional disclosures will be required about fair values.
AASB 119 (reissued September 2012) Employee Benefits	Main changes include: Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans. Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods. Subtle amendments to timing for recognition of liabilities for termination benefits. Employee benefits expected to be settled (as opposed to due to be settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period in future will be discounted when calculating leave liability.	Annual Periods commencing on or after 1 January 2013	The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 31 December 2013 year end, annual leave liabilities will be recalculated on 1 January 2013. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 January 2013, and a corresponding increase in retained earnings at that date.

u. Derivatives and Hedging Activities

The Bank uses derivative financial instruments to avoid or minimise possible adverse financial effects of movements in interest rates.

The Bank designates certain derivatives as either:

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss.

(ii) Cash Flow Hedge

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 in profit or loss within other income or other expenses.

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

Hedge accounting is discontinued when the hedging instrument expires or no longer qualifies for hedge accounting or is terminated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is reclassified to profit or loss.

2. Income Statement

a. Analysis of Interest Revenue

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Category of Interest Bearing Assets				
Cash - Deposit	1,031,203	1,547,509	1,031,203	1,547,509
Receivables from Financial Institutions	12,107,320	13,950,216	12,106,392	13,948,851
Loans and Advances	66,061,509	69,090,554	66,061,509	69,090,554
Total	79,200,032	84,588,279	79,199,104	84,586,914

b. Analysis of Interest Expense

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Category of Interest Bearing Liabilities				
Member Deposits	40,016,194	45,799,035	40,016,194	45,799,035
Overdraft	66,349	64,865	66,349	64,865
Other Financial Liabilities	2,771,115	1,989,690	2,771,115	1,989,690
Total	42,853,658	47,853,590	42,853,658	47,853,590

3. Profit from Ordinary Activities - Revenue

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Dividend Revenue	455,524	539,106	455,524	539,106
Fee and Commission Revenue				
- Loan Fee Income	1,169,940	1,365,847	1,169,940	1,365,847
- Other Fee Income	2,364,292	2,251,956	2,364,292	2,251,956
- Insurance Commissions	2,020,647	1,929,067	2,020,647	1,929,067
- Other Commissions	1,395,862	1,219,860	798,044	769,674
Bad Debts Recovered	142,906	202,893	142,906	202,893
Total Revenue from Ordinary Activities	7,549,171	7,508,729	6.951,353	7,058,543
Other Revenue				
- Income from Derivative Fair Value	-	18,399	-	18,399
- Other	212,104	94,127	212,104	94,127
Total Revenue from Other Activities	212,104	112,526	212,104	112,526
Total Revenue from Ordinary and Other Activities	7,761,275	7,621,255	7,163,457	7,171,069

4. Profit from Ordinary Activities - Expenses

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
a. Loan Impairment Losses				
Increase/(decrease) in provision for impairment	48,446	324,134	48,446	324,134
Bad Debts written off directly against profit	535,004	490,370	535,004	490,370
Total Impairment Losses	583,450	814,504	583,450	814,504
b. Other Prescribed Expense Disclosures				
Auditor's Remuneration				
- Audit Fees - Grant Thornton	151,461	108,573	151,461	108,573
- Audit Fees - Other Audit Fees	-	34,412	-	34,412
- Other Services	51,361	41,941	49,397	39,978
	202,822	184,926	200,858	182,963
Profit /(loss) on disposal of assets				
- Property, Plant and Equipment	52,093	42,214	52,093	45,982
Net movement in provision for depreciation				
- Buildings	32,139	32,139	32,139	32,139
- Plant and Equipment	715,365	1,031,859	702,740	1,022,613
- Leasehold Improvements	40,060	28,428	40,060	28,428
- Intangible Assets	366,966	353,056	366,966	353,056
Other Expense				
- Supervision Levy	57,372	50,480	57,372	50,480
- Superannuation	1,288,750	1,414,565	1,252,597	1,358,580

5. Income Tax

	Consolidated		Police Bank	
a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the account as follows	2013 $	2012 $	2013 $	2012 $
Prima facie tax payable on operating profit before income at 30%	4,280,993	4,394,739	4,252,041	4,375,382
Non-deductable expenditure	46,416	62,797	46,416	62,797
First Home Savers account	14,943	8,510	14,943	8,510
Building depreciation	9,642	9,642	9,642	9,642
Imputation credit	68,853	69,314	68,853	69,314
Rebate on fully franked dividends	(229,510)	(231,045)	(229,510)	(231,045)
Tax effect of dividend	24,000	-	-	-
Deduction not allowed in accounting expenses	9,140	3,754	-	-
Over provision of Income Tax Previous Year	(25,628)	(13,616)	(25,628)	(13,616)
Total	4,198,849	4,304,095	4,136,757	4,280,984
b. Income tax expense comprises amounts				
Provision for income tax attributable to current year taxable income	4,117,809	4,218,666	4,055,717	4,195,555
Movement in future income tax benefit	72,556	(100,502)	72,556	(100,502)
Movement in deferred tax liability	34,112	199,547	34,112	199,547
Over provision of Income Tax Previous Year	(25,628)	(13,616)	(25,628)	(13,616)
	4.198,849	4,304,095	4,136,757	4,280,984
c. Franking Credits				
Franking credits held by the Bank after adjusting for franking credits that will arise from payment of income tax payable as at 30 June.	49,184,686	45,015,586	49,106,311	45,009,051

6. Cash and Liquid Assets

Cash on hand	2,371,250	2,288,728	2,303,713	2,253,696
Deposits at call	10,599,963	22,499,980	10,599,963	22,499,980
Cash at Bank	3,676,234	4,287,841	3,676,234	4,287,841
Security Deposits	50,660	50,660	50,660	50,660
	16,698,107	29,127,209	16,630,570	29,092,177

7. Receivables Due from other Financial Institutions

Deposits - Term	118,000,000	105,000,000	118,000,000	105,000,000

8. Accrued Receivables

Interest Receivable on deposits with other Financial Institutions	1,909,913	2,194,301	1,909,913	2,194,301
Prepayments	613,896	636,496	613,896	636,496
Sundry Debtors	1,626,293	4,648,129	1,538,609	4,607,910
	4,150,102	7,478,926	4,062,418	7,438,707

9. Investment Securities

Bank Bills and Certificate of Deposits	108,654,365	89,603,922	108,654,365	89,603,922
Floating Rate Notes	24,629,878	21,338,957	24,629,878	21,338,957
Subordinated Debt	12,160,000	2,000,000	12,160,000	2,000,000
	145,444,243	112,942,879	145,444,243	112,942,879

Subordinated Debt - On 18th June 2012 the Bank invested in subordinated notes issued by National Australia Bank. The rights of the noteholders are subordinated to the claims of all creditors (including depositors) of National Australia Bank. The notes have quarterly interest payable in arrears with a fixed maturity date of 18th June 2022. National Australia Bank may redeem the notes on 18th June 2017 subject to prior approval from APRA and the impending Basel III obligations.

On 9th November 2012 the Bank invested in a lower tier 2 capital instrument issued by the Australian Mutual Investment Trust (AMIT). AMIT has been created by the Australian Mutual Group (AMG) which consists of 17 Australian mutual authorised deposit-taking institutions. The notes have quarterly interest payable in arrears with a fixed maturity date of 9th November 2017.

10. Loans and Advances

	Consolidated		Police Bank	
a. Amount Due comprises				
Overdrafts and Revolving Credit Loans	46,440,029	48,629,681	46,440,029	48,629,681
Term Loans	983,987,980	915,373,413	983,987,980	915,373,413
	1,030,428,009	964,003,094	1,030,428,009	964,003,094
Less: Provision for Impaired Loans	1,566,899	1,518,453	1,566,899	1,518,453
Less: Unamortised Loan Origination Fees	1,254,318	963,757	1,254,318	963,757
Plus: Amortised Loan Transaction Costs	86,639	136,157	86,639	136,157
Net Loans and Advances	1,027,693,431	961,657,041	1,027,693,431	961,657,041
b. Credit Quality - Security held against Loans				
Secured by Mortgage	889,520,159	820,019,623	889,520,159	820,019,623
Secured Other	69,734,484	71,589,209	69,734,484	71,589,209
Unsecured	71,173,366	72,394,262	71,173,366	72,394,262
	1,030,428,009	964,003,094	1,030,428,009	964,003,094

It is not practicable to value all collateral as the balance is due to a variety of assets and conditions. A breakdown of the quantity of the residential mortgage security on a portfolio basis is as follows.
Security held as mortgage against real estate is on the basis of:

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
- loan to valuation ratio of less than 80%;	582,970,862	561,648,620	582,970,862	561,648,620
- loan to valuation ratio of more than 80% but mortgage insured; and	268,153,690	223,413,563	268,153,690	223,413,563
- loan to valuation ratio or more than 80% and not mortgage insured.	38,395,607	34,957,440	38,395,607	34,957,440
Total	889,520,159	820,019,623	889,520,159	820,019,623
c. Concentration of Loans				
(i) Individual loans which exceed 10% of Member Funds in aggregate amount to $0.00 (2012 $0.00)	-	-	-	-
(ii) Loans to Members are solely in Australia				
(iii) Loan purpose dissection:				
- Residential	763,299,184	707,415,291	763,299,184	707,415,291
- Personal	125,279,922	128,512,448	125,279,922	128,512,448
- Commercial*	126,392,064	112,813,183	126,392,064	112,813,183
- Lease	15,456,839	15,262,172	15,456,839	15,262,172
	1,030,428,009	964,003,094	1,030,428,009	964,003,094

*These are primarily loans to individuals secured by residential mortgage.

Geographical Areas

	Housing	Personal	Credit Card	Overdraft	Business	Total
Sydney City	178,672,999	21,240,115	4,137,333	2,770,008	115,773	206,936,228
Western Suburbs	167,396,567	17,413,686	3,529,282	1,387,535	90,095	189,817,165
Australian Capital Territory	138,561,169	13,254,161	2,399,441	1,462,000	-	155,676,771
Illawarra	108,530,495	11,684,923	1,888,468	992,973	-	123,096,859
Hunter Valley	88,275,778	8,422,009	1,243,622	879,043	-	98,820,452
Central Coast	50,081,004	8,553,057	1,051,917	709,786	-	60,395,764
NSW North Coast	51,568,478	5,054,501	969,483	1,081,210	-	58,673,672
Other States	31,264,433	3,466,452	967,517	1,077,258	-	36,775,660
NSW Country	28,948,511	4,184,367	589,769	442,524	-	34,165,171
Blue Mountains	30,264,295	2,119,773	409,705	196,691	-	32,990,464
South Coast	15,921,651	1,242,257	273,584	185,472	-	17,622,964
Grand Total	889,485,380	96,635,301	17,460,121	11,184,500	205,868	1,014,971,170

11. Provision on Impaired Loans

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
a. Total Provision Comprises				
Specific Provision	-	-	-	-
Collective Provision	1,566,899	1,518,453	1,566,899	1,518,453
	1,566,899	1,518,453	1,566,899	1,518,453
b. Movement in Specific Provision				
Balance at the beginning of the year	1,518,453	1,194,319	1,518,453	1,194,319
Add: Transfers from Income Statement	48,446	324,134	48,446	324,134
Deduct: Bad debts written off against provision	-	-	-	-
Deduct: Transfers to Income Statement	-	-	-	-
Balance at end of year	1,566,899	1,518,453	1,566,899	1,518,453
c. Impaired Loans Written Off				
Amount written off against the provision for impaired loans	-	-	-	-
Amounts written off directly to expense	535,004	490,370	535,004	490,370
Total bad debts	535,004	490,370	535,004	490,370
Bad debts recovered in the period	142,906	202,893	142,906	202,893
d. Impaired Loan Disclosures Impaired Loans as at Balance Date				
Balance of the impaired loans	2,437, 442	2,481,338	2,437, 442	2,481,338
Estimated value of loans which is secured	601,421	1,054,720	601,421	1,054,720
Loans with repayments Past Due but not impaired (due to security held)				
- Real estate	1,195,845	768,124	1,195,845	768,124
- Other	-	-	-	-

Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding.

	Carrying Value	Provision	Carrying Value	Provision
	2013 $	2013 $	2012 $	2012 $
Mortgage Insured	586,825	-	1,905,772	-
30 up to 89 days in arrears	889,788	-	1,226,139	-
90 to 181 days in arrears	1,004,396	401,758	1,301,230	520,492
182 to 272 days in arrears	428,370	257,022	121,458	72,875
273 to 364 days in arrears	253,598	202,878	411,776	329,421
365 days and over in arrears	570,038	570,038	497,347	497,347
Over limit facilities over 14 days	195,903	135,203	149,527	98,318
Total	3,928,918	1,566,899	5,613,249	1,518,453

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other types of assets. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions of those assets.

The Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report, the Bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in the past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

	2013			2012		
	Carrying Value	Value of impaired loans	Provision for impairment	Carrying Value	Value of impaired loans	Provision for impairment
Mortgages	2,772,920	1,797,266	1,144,850	4,296,495	1,822,847	1,119,291
Personal	665,904	353,595	234,688	857,312	406,880	253,415
Credit Cards	279,033	160,722	103,073	328,494	130,451	74,318
Overdrafts	506,408	125,859	84,288	599,287	109,945	66,943
Lease	-	-	-	11,215	11,215	4,486
Total to Natural Persons	4,224,265	2,437,442	1,566,899	6,092,803	2,481,338	1,518,453
Corporate Borrowers	-	-	-	-	-	-
Total	4,224,265	2,437,442	1,566,899	6,092,803	2,481,338	1,518,453

12. Available for Sale Investments

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Cuscal Member Shares (i)	2,988,183	2,507,621	2,988,183	2,507,621
Less: Provision - for impairment	36,978	-	36,978	-
Chelsea Wealth Management Pty Ltd	637,152	637,178	1,159,546	637,185
PCU 2009-1 Trust (ii)	4,595,061	4,579,497	4,595,061	4,579,497
	8,183,418	7,724,296	8,705,812	7,724,303

(i) Cuscal provides numerous services to the Bank.

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member Banks. The shares are not redeemable.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily.

The Bank is not intending to dispose of these shares.

(ii) The PCU 2009-1 Trust is a special purpose vehicle that issues securities under an internal securitisation program for the purpose of contingency liquidity management. The Bank's risk management has been strengthened with the implementation of the 're-purchase' facility with the Reserve Bank of Australia providing greater access to funds and a higher level of security for the organisation.

13. Property, Plant and Equipment

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
a. Property, Plant and Equipment Annual				
Fixed assets				
Land at cost	264,440	264,440	264,440	264,440
Buildings at cost	1,285,560	1,285,560	1,285,560	1,285,560
Less: Provisions for depreciation	175,591	143,452	175,591	143,452
Total Buildings	1,109,969	1,142,108	1,109,969	1,142,108
Total Land and Buildings	1,374,409	1,406,548	1,374,409	1,406,548
Plant and Equipment at cost	9,698,307	8,998,034	9,644,841	8,946,228
Less: Provision for depreciation	7,110,072	7,608,903	7,082,728	7,592,746
Total Plant and Equipment	2,588,235	1,389,131	2,562,113	1,353,482
Capitalised leasehold improvements at cost	2,923,316	2,795,093	2,918,117	2,789,894
Less: Provision for depreciation	2,711,509	2,769,327	2,709,469	2,768,727
Total Capitalised Leasehold Improvements	211,807	25,766	208,648	21,167
Closing Balance 30 June	4,174,451	2,821,445	4,145,170	2,781,197

b. Land and Buildings - Valuation

The Bank has a property at Goulburn with the land valued by an independent valuation as at 31 December 2009 at $1,550,000. The increase to valuation over cost has not been brought to account in the balance sheet.

	2013			2012		
	Property	Plant & Equipment	Leasehold Improvement	Property	Plant & Equipment	Leasehold Improvement
Opening Balance 1 July	1,406,548	1,389,131	25,766	1,438,687	1,931,881	48,995
Add: Purchases in the year	-	1,968,126	226,101	-	627,555	5,199
Revaluation increase adjustments	-	-	-	-	-	-
Less: Disposal of assets	-	(105,750)	-	-	(180,660)	-
Profit/(Loss) on Sale	-	52,093	-	-	42,214	-
Depreciation charge	(32,139)	(715,365)	(40,060)	(32,139)	(1,031,859)	(28,428)
Closing Balance 30 June	1,374,409	2,588,235	211,807	1,406,548	1,389,131	25,766

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
14. Intangible Assets				
Computer Software	1,524,413	6,911,165	1,524,413	6,911,165
Less: Provision for Amortisation	(1,164,655)	(6,397,619)	(1,164,655)	(6,397,619)
Goodwill on acquisition of Financial Planning business	938,673	53,551	-	-
	1,298,431	567,097	359,758	513,546
Movement in the intangible asset balances during the year were:				
Opening Balance 1 July	567,097	598,842	513,546	598,842
Add: Purchases in the year	1,098,300	321,311	213,178	267,760
Less: Disposal of Assets	-	-	-	-
Depreciation charge	(366,966)	(353,056)	(366,966)	(353,056)
Closing Balance 30 June	1,298,431	567,097	359,758	513,546
15. Taxation Assets				
Deferred Tax Asset	1,776,608	1,821,909	1,776,608	1,821,909
Deferred Tax Asset Comprises:				
- Provision for Impairment	470,070	455,536	470,070	455,536
- Deferred Loan Origination Costs/Fees	-	-	-	-
- Provision for Staff Entitlements	1,135,691	999,417	1,135,691	999,417
- Fair Value of derivatives	-	-	-	-
- Provision Leasehold make good	-	118,200	-	118,200
- Audit Accrual	20,330	32,572	20,330	32,572
- Transitional TOFA Adjustment - Loan Fees	61,477	122,953	61,477	122,953
- Transitional TOFA Adjustment - Interest Rate Swaps	39,789	79,578	39,789	79,578
- Other	49,251	13,653	49,251	13,653
	1,776,608	1,821,909	1,776,608	1,821,909
16. Amounts Payable to Other Financial Institutions				
Overdraft Secured (Note 31)	-	-	-	-
Negotiable Certificate of Deposit	34,679,411	-	34,679,411	-
Loan Payable to Bridges Financial Services	255,274	-	-	-
	34,934,685	-	34,679,411	-
17. Deposits				
Member Deposits:				
- at call	433,983,416	412,620,969	433,983,416	412,620,969
- term	696,122,895	663,494,464	696,122,895	663,494,464
Withdrawable Shares	376,450	389,610	376,450	389,610
	1,130,482,761	1,076,505,043	1,130,482,761	1,076,505,043

Concentration of Risk

(i) There are no Members who individually have deposits which represent 10% or more of the total liabilities of the Bank.
(ii) Details of classes of deposits which represent 10% or more of shareholders' equity of the Bank are set out below:

	Consolidated 2013	Consolidated 2012	Police Bank 2013	Police Bank 2012
Industry Group				
State Government	353,034,203	292,166,729	353,034,203	292,166,729
Federal Government	104,310,644	88,331,791	104,310,644	88,331,791

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Geographic Areas				
Australian Capital Territory	55,875,840	50,620,078	55,875,840	50,620,078
Central Coast Region	49,120,330	47,400,640	49,120,330	47,400,640
Hunter Region	74,909,009	75,327,913	74,909,009	75,327,913
Illawarra Region	33,432,192	29,317,723	33,432,192	29,317,723
North Coast Region	71,827,767	70,884,508	71,827,767	70,884,508
Sydney Coast Region	28,247,296	26,624,984	28,247,296	26,624,984
Sydney Metropolitan	645,233,421	620,972,097	645,233,421	620,972,097

18. Creditors and Borrowings

Creditors and Accruals	5,073,226	5,375,698	4,998,108	5,307,583
Interest Payable on Deposits	7,588,133	8,760,743	7,588,133	8,760,743
	12,661,359	14,136,441	12,586,241	14,068,326

19. Provisions

Provision for:				
Employee Benefits	2,632,422	2,534,309	2,632,422	2,534,309
Leasehold Make Good	556,000	393,999	556,000	393,999
Other	29,767	45,512	29,767	45,512
	3,218,189	2,973,820	3,218,189	2,973,820

20. Taxation Liabilities

Provisions for Income tax	853,243	461,226	816,915	461,226
Provision for Deferred Income Tax	816,452	780,713	816,452	780,713
Other	62,561	57,355	37,460	42,563
	1,732,256	1,299,294	1,670,827	1,284,502
Provision for Deferred Income Tax Comprises:				
- Prepayments;	57,535	54,225	57,535	54,225
- Deferred Loan Origination Fees/Costs;	-	40,847	-	40,847
- Tax allowances relating to Property, Plant & Equipment; and	678,338	592,567	678,338	592,567
- Tax allowances relating to Chelsea Wealth Management Pty Ltd.	73,106	73,106	73,106	73,106
- Transitional TOFA Adjustment	7,473	19,968	7,473	19,968
	816,452	780,713	816,452	780,713

21. Capital Reserve Account

Balance - 1 July	340,280	328,740	340,280	328,740
Transfer from retained earnings on share redemptions	13,160	11,540	13,160	11,540
Balance - 30 June	353,440	340,280	353,440	340,280

Share Redemption

The accounts represent the amount of redeemable Preference Shares redeemed by the Bank since 1 July 1999. The law requires that the redemption of the Shares be made out of profits. Since the value of the Shares have been paid to Members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriate to the account.

22. General Reserves For Credit Losses

	Consolidated		Police Bank	
	2013	2012	2013	2012
	$	$	$	$
General Reserves For Credit Losses	3,400,306	3,270,306	3,400,306	3,270,306
Balance 1 July	3,270,306	2,996,306	3,270,306	2,996,306
Add: Increase/Decrease transferred from retained earnings	130,000	274,000	130,000	274,000
Balance 30 June	3,400,306	3,270,306	3,400,306	3,270,306

23. Financial Risk Management Objectives and Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Bank.

The Bank's risk management focuses on the major areas of market risk, credit risk, liquidity risk and operational risk. Authority flows from the Board of Directors. In addition to this, the internal risk management structure is strengthened by the interaction with external audit. The Audit and Risk Committee is responsible for reviewing the external audit plan and the progress against the plan each year, and ensuring that issues raised are dealt with in an adequate and timely manner. Over and above the aforementioned the external auditor reports to Members by the way of the Auditor's Report in which the auditor expresses an opinion on the annual accounts. Please refer to the Auditor's Report for the full details. The diagram below shows the risk management structure. The main elements of risk governance are as follows:

Board: This is the primary governing body. It approves the level of risk which the Bank is exposed to and the framework for reporting and mitigating those risks.

Corporate Governance Committee: This Committee holds at least three meetings each year and the primary objectives of the Committee are:

- To ensure that the Bank practices good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority in Australian Prudential Standards 510 and 520;
- To ensure all Directors and persons nominating for the position of Director are of good character and meet the "Fit and Proper" requirements of the Corporate Governance policy;
- To recommend to the Board on how best for the Board to achieve Board renewal to ensure that the majority of the Directors are independent and that the Board as a whole possess the required skills of directing the Bank; and
- To review disputes from Members relating to the Bank's policies, procedures, systems or service delivery, which have been unable to be resolved by Management.

Audit and Risk Committee: This Committee's key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board of Directors for their consideration.

The Audit and Risk Committee also assists the Board by providing an objective non-executive review of the effectiveness of the Risk Management Policy. This Committee holds at least four meetings each year and the Committee periodically reviews the Risk Management Policy and formulates and regularly reviews the Banks risk profile and risk appetite. In addition, the Committee reviews risk management practices and internal controls having regard to material business risk. These risks include:

- Credit Risk, Liquidity Risk and Market Risk;
- Operations Risk (data, legal, fraud, insurance etc);
- Financial Reporting Risk; and
- Other identified risks such as Compliance Risk, Reputation Risk, Staffing Risk.

The Committee monitors the annual risk assessment.

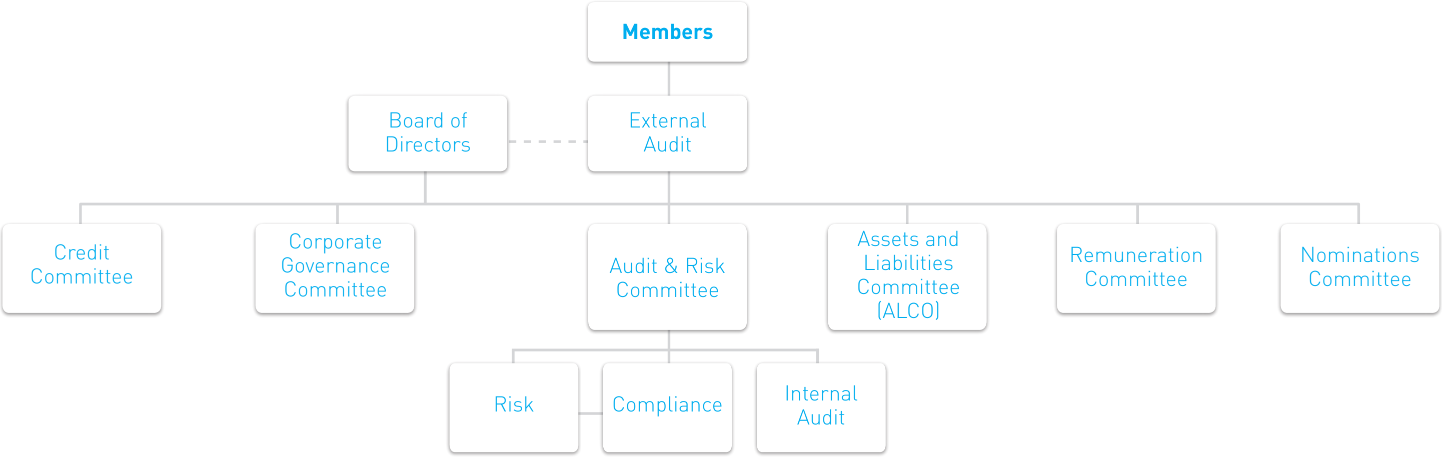
Credit Committee – Credit Risk: This Committee meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Credit Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be in put in place regarding the authorisation of new loans.

The Credit Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the Credit Committee.

All loans are managed through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Committee monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the Credit Committee, implements the Bank's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.



Asset and Liability Committee (ALCO) - Market Risk: This Committee meets monthly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate and liquidity risk. The daily scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by the ALCO Committee.

Remuneration Committee: The Remuneration Committee has been established to ensure that the Bank practices good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority (APRA) in Australian Prudential Standards 510. The committee's primary responsibility is to assess the appropriateness of Director and Executive remuneration, and encourage behaviour that supports the long-term financial soundness of the Bank and the risk management framework.

Nomination Committee: The Nomination Committee has been established to independently assess the fairness and propriety of all candidates (excluding incumbents who are re-standing) for the positions of Director. In addition, the Committee ensures that those persons interviewed for the position of Director have the appropriate level of skills, experience and qualifications.

Compliance and Risk Managers: Their primary responsibilities involve the development and implementation of controls to manage operational risk to balance the avoidance of financial loss and damage to the Bank's reputation.

Internal Audit: Internal Audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Key risk management policies encompassed in the overall risk management framework include:

- Interest Rate Risk;
- Liquidity Management;
- Credit Risk Management; and
- Operations Risk Management including data risk management.

The Bank has undertaken the following strategies to minimise the risks arising from financial instruments

a. Market Risk and Hedging Policy

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books. The Bank is exposed only to interest rate risk arising from changes in market interest rates. The management of market risk is the responsibility of the ALCO Committee, which reports directly to the Board.

(i) Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its Treasury operations. Police Bank does not have a treasury operation and does not trade in financial instruments.

(ii) Interest Rate Risk in the Banking Book

The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured daily, reported to the ALCO monthly, and to the Board via the ALCO Committee monthly.

In the banking book the most common risk the Bank faces arises from fixed rate assets and liabilities. This exposes the Bank to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 27. The table set out at note 27 displays the period that each asset and liability will reprice as at the balance date.

(iii) Method of Managing Risk

The Bank manages its interest rate risk by the use of value at risk models (VAR) and interest rate sensitivity analysis, the detail and assumptions used are set out below.

(iv) Hedging

To mitigate this risk the Bank has entered into pay fixed/receive floating interest rate swaps. The interest rate risk on fixed rate loans/assets are hedged by purchasing pay fixed/receive floating interest rate swaps. As at 30 June 2013 the notional principle amounts of the interest rate swap contracts is $50,000,000. The fair value reflected in the Balance Sheet is ($1,145,980). The valuation of the derivative transactions is based on mid-market levels as of the close of business on 30 June 2013. The valuations are derived from proprietary models based upon well recognised financial principles and reasonable estimates about relevant future market conditions.

(v) Interest Rate Sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to monitor on a monthly basis the changes to maturity profiles within its deposit base and changes in the underlying portfolio mix to ensure that such changes will not have an unacceptable adverse outcome to the Bank. The policy of the Bank is to use derivatives to hedge against adverse consequences of interest rate risk. The Bank's exposure to interest rate risk is set out in Note 27 which details the contractual interest change profile.

An independent review of the interest rate risk profile is conducted by Strategic Risk International, an independent Risk Management Consultancy.

Based on the calculations as at 30 June 2013, the calculated market value of equity (EVE) is $142.3 million, with a sensitivity of $740,295 to a 1% change in interest rates

The Bank performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- variable rate mortgage loans would all reprice to the new interest rate in one month;
- personal loans would reprice at the contracted maturity date;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

b. Liquidity Risk

Liquidity risk is the risk that the Bank may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or Member withdrawal demands. It is the policy of the Board of Directors that the Bank maintains adequate cash reserves and committed credit facilities so as to meet the Member withdrawal demands when requested.

The Bank manages liquidity risk by:

- continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.

The Bank has a longstanding arrangement with the industry liquidity support company Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank should it be necessary at short notice.

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Bank policy is to apply a minimum of 11% of funds as liquid assets to maintain adequate funds for meeting Member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 31 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 25. The ratio of liquid funds over the past year is set out below:

APRA	2013	2012
To total adjusted liabilities		
As at 30 June	12.20%	12.39%
Average for the year	13.10%	13.11%
Minimum during the year	11.54%	11.76%
To total Member deposits		
As at 30 June	13.17%	12.86%

c. Credit Risk

Credit risk is the risk that Members, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial losses. Credit risk arises principally from the Bank's loan book, investment assets and derivative contracts.

(i) Credit Risk - Loans

The analysis of the Bank's loans by class, is as follows:

	2013			2012		
	Carrying Value	Off Balance Sheet	Maximum Exposure	Carrying Value	Off Balance Sheet	Maximum Exposure
Residential	763,299,184	41,295,399	804,594,583	707,415,291	43,553,506	750,968,797
Personal	111,707,781	493,224	112,201,005	115,417,582	969,025	116,386,607
Credit Cards	17,460,121	18,171,499	35,631,620	16,668,461	16,941,349	33,609,810
Overdrafts	11,568,859	22,937,729	34,506,588	11,688,577	23,497,769	35,186,346
Total to Natural Persons	904,035,945	82,897,851	986,933,796	851,189,911	84,961,649	936,151,560
Commercial	126,392,064	-	126,392,064	112,813,183	-	112,813,183
Total	1,030,428,009	82,897,851	1,113,325,860	964,003,094	84,961,649	1,048,964,743

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 30 and a summary is in Note 10.c.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 10.c.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The Bank has established policies over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements
- limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default
- reassessing and review of the credit exposures on loans and facilities
- establishing appropriate provisions to recognise the impairment of loans and facilities
- debt recovery procedures; and
- review of compliance with the above policies.

A regular review of compliance is conducted as part of the internal audit scope.

Past Due and Impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a Member enters into a lending agreement with the Bank that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loans are over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement. In estimating these cash flows, Management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Bank makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

Balance sheet provisions are maintained at a level that Management deems sufficient to absorb probable incurred losses in the Bank's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. The provisions for impaired and past due exposures relate to the loans to Members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 11.

Bad Debts

Amounts are written-off when collection of the loan or advance is considered to be remote. All write-offs are on a case by case basis, taking account of the exposure at the date of the write off. On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lender's mortgage insurance. A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 11.

Collateral Securing Loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Bank is exposed to risks in the reduction the Loan to Value (LVR) cover should the property market be subject to a decline. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Board policy is where the outstanding loan balance exceeds 80% of the valuation, the mortgage should be 100% mortgage insured secured. Note 10 b describes the nature and extent of the security held against the loans held as at the balance date.

Concentration Risk – Individuals

Concentration risk is a measurement of the Bank's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the Bank's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.
The aggregate value of large exposure loans are set out in Note 10. The Bank holds no significant concentrations of exposures to Members.

Concentration Risk – Industry

The Bank has a concentration in the retail lending for members who comprise employees and family in the Policing Industry. This concentration is considered acceptable on the basis that the Bank was formed to service these Members, and the employment concentration is not exclusive. Should Members leave the industry the loans continue and other employment opportunities are available to the Members to facilitate the repayment of the loans.

(ii) Credit Risk - Liquid Investment

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Bank incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Bank.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to authorised institutions. Directors have established policies that a maximum of up to 30% of the capital base (excluding Cuscal) can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one Bank. Also the relative size of the Bank as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal and/or a Bank Financial Support Scheme (CUFSS) approved Authorised Deposit-taking Institution (ADI), to allow the scheme to have adequate resources to meet its obligations if needed.

d. Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (Trading Book); and
- Operations risk.

The market risk component is not required as the Bank is not engaged in a Trading Book for financial instruments.

Capital Resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits
- Realised reserves
- Asset revaluation reserves on property

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Capital in the Bank is made up as shown in chart below.

	2013
Tier 1	
Share capital	353,440
Capital reserve	1,430,212
General reserve	37,997,000
Cash flow hedge reserve	(1,145,980)
Retained earnings	100,939,708
Asset revaluations reserves on property	268,875
Less prescribed deductions	18,093,583
Net tier 1 capital	121,749,672
Tier 2	
Reserve for credit losses	3,400,306
Net Tier 2 capital	3,400,306
Total Capital	125,149,978

The Bank is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2013	2012	2011	2010	2009
Basel III	Basel II	Basel II	Basel II	Basel II
18.47%	19.23%	20.09%	19.45%	18.13%

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

To manage the Bank's capital, the Bank reviews the ratio monthly and monitors movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14.5%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2013 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Based on this approach, the Bank's operational risk requirement is as follows:

- Operational Risk Regulatory Capital $ 5,673,659

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below:

Internal Capital Adequacy Management

The Bank manages its internal capital levels for both current and future activities annually during the review of the budget and business plan and at times when the Bank's risk matrix detects an adverse movement of the Bank's risk profile. The outputs are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board.

24. Categories of Financial Instruments and Liabilities

The following information classifies the financial instruments into measurement classes	Note	Consolidated 2013 $	Consolidated 2012 $	Police Bank 2013 $	Police Bank 2012 $
Financial Assets - carried at amortised cost					
Cash	6	16,698,107	29,127,209	16,630,570	29,092,177
Receivables from Financial Institutions	7	118,000,000	105,000,000	118,000,000	105,000,000
Accrued Receivables	8	3,536,206	6,842,430	3,448,522	6,802,211
Investment Securities	9	145,444,243	112,942,879	145,444,243	112,942,879
Loans & Advances	10	1,027,693,431	961,657,041	1,027,693,431	961,657,041
Total Loans and Receivables		1,311,371,987	1,215,569,559	1,311,216,766	1,215,494,308
Available for Sale Investments carried at cost	12	8,183,418	7,724,296	8,705,812	7,724,303
Fair Value of Derivatives		-	-	-	-
Total Financial Assets		1,319,555,405	1,223,293,855	1,319,922,578	1,223,218,611
Financial Liabilities carried at amortised cost					
Short Term Borrowings	16	34,934,685	-	34,679,411	-
Deposits from Members	17	1,130,106,311	1,076,115,433	1,130,106,311	1,076,115,433
Withdrawable Shares	17	376,450	389,610	376,450	389,610
Creditors and Borrowings	18	12,661,359	14,136,441	12,586,241	14,068,326
Total Carried at Amortised Cost		1,178,078,805	1,090,641,484	1,177,748,413	1,090,573,369
Fair Value of Derivatives		1,145,980	1,742,561	1,145,980	1,742,561
Total Financial Liabilities		1,179,224,785	1,092,384,045	1,178,894,393	1,092,315,930

25. Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on their contractual term, and in the case of loans, the repayment amount and frequency. The table on the next page shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the balance sheet.

2013

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
Assets						
Cash	16,698,107	16,698,107	-	-	-	16,698,107
Accrued Receivables	3,536,206	3,536,206	-	-	-	3,536,206
Receivables from Financial Institutions	118,000,000	98,131,625	16,213,092	5,321,363	-	119,666,080
Investment Securities	145,444,243	91,000,000	19,000,000	36,789,879		146,789,879
Loans and Advances	1,027,693,431	25,833,648	77,500,943	413,338,364	1,205,183,612	1,721,856,567
Available for Sale Investments	8,183,418	-	-	-	8,183,418	8,183,418
On Balance Sheet Financial Assets	1,319,555,405	235,199,586	112,714,035	455,449,606	1,213,367,030	2,016,730,257
Interest Rate Swaps	50,000,000	-	30,555,114	20,948,756	-	51,503,870
Total Financial Assets	1,369,555,405	235,199,586	143,269,149	476,398,362	1,213,367,030	2,068,234,127
Liabilities						
Creditors and Accruals	5,073,226	5,073,226	-	-	-	5,073,226
Creditors Interest Payable on Deposits	7,588,133	-	-	-	-	-
Deposits from Members - At Call	433,983,416	433,983,416	-	-	-	433,983,416
Deposits from Members - Fixed Term	696,122,895	495,593,503	127,470,819	95,976,003	61,214	719,101,539
Negotiable Certificate of Deposit	34,679,411	25,000,000	10,000,000			35,000,000
Withdrawable Shares	376,450	376,450	-	-	-	376,450
Borrowings	255,274	-	255,274	-	-	255,274
On Balance Sheet Financial Liabilities	1,178,078,805	960,026,595	137,726,093	95,976,003	61,214	1,193,789,905
Undrawn Loan Commitments	82,897,851	82,897,851	-	-	-	82,897,851
Interest Rate Swaps	50,000,000	-	31,064,883	21,466,030	-	52,530,913
Total Financial Liabilities	1,310,976,656	1,042,924,446	168,790,976	117,442,033	61,214	1,329,218,669

2012

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
Assets						
Cash	29,127,209	29,127,209	-	-	-	29,127,209
Accrued Receivables	6,842,430	6,842,430	-	-	-	6,842,430
Receivables from Financial Institutions	105,000,000	85,253,578	16,488,568	5,831,924	-	107,574,070
Investment Securities	112,942,879	63,000,000	28,000,000	23,338,957	-	114,338,957
Loans and Advances	961,657,041	25,866,019	77,598,056	413,856,298	908,710,484	1,426,030,857
Available for Sale Investments	7,724,296	-	-	-	7,724,296	7,724,296
On Balance Sheet Financial Assets	1,223,293,855	210,089,236	122,086,624	443,027,179	916,434,780	1,691,637,819
Interest Rate Swaps	50,000,000	-	-	53,668,170	-	53,668,170
Total Financial Assets	1,273,293,855	210,089,236	122,086,624	496,695,349	916,434,780	1,745,305,989
Liabilities						
Creditors and accruals	5,375,698	5,375,698	-	-	-	5,375,698
Creditors Interest Payable on Deposits	8,760,743	-	-	-	-	-
Deposits from Members - At Call	412,620,969	412,620,969	-	-	-	412,620,969
Deposits from Members - Fixed Term	663,494,464	453,028,298	140,611,893	99,544,245	56,586	693,241,022
Negotiable Certificate of Deposit	-	-	-	-	-	-
Withdrawable Shares	389,610	389,610	-	-	-	389,610
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	1,090,641,484	871,414,575	140,611,893	99,544,245	56,586	1,111,627,299
Undrawn Loan Commitments	84,961,649	84,961,649	-	-	-	84,961,649
Interest Rate Swaps	50,000,000	-	-	55,039,413	-	55,039,413
Total Financial Liabilities	1,225,603,133	956,376,224	140,611,893	154,583,658	56,586	1,251,628,361

26. Maturity Profile of Financial Assets and Liabilities

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and not able to be reliably estimated.

2013	Within 12 Months	After 12 Months	Total
Assets			
Cash	16,698,107	-	16,698,107
Accrued receivables	3,536,206	-	3,536,206
Receivables from Financial Institutions	113,000,000	5,000,000	118,000,000
Investment Securities	108,654,364	36,789,879	145,444,243
Loans and Advances	34,583,897	993,109,534	1,027,693,431
Available for Sale Investments	-	8,183,418	8,183,418
On Balance Sheet Financial Assets	276,472,574	1,043,082,831	1,319,555,405
Interest Rate Swaps	30,000,000	20,000,000	50,000,000
Total Financial Assets	306,472,574	1,063,082,831	1,369,555,405
Liabilities			
Creditors and Accruals	5,073,226	-	5,073,226
Creditors Interest Payable on deposits	7,588,133	-	7,588,133
Deposits from Members - At Call	433,983,416	-	433,983,416
Deposits from Members - Fixed Term	608,866,789	87,256,106	696,122,895
Negotiable Certificate of Deposit	34,679,411	-	34,679,411
Withdrawable Shares	376,450	-	376,450
Borrowings	255,274	-	255,274
On Balance Sheet Financial Liabilities	1,090,822,699	87,256,106	1,178,078,805
Undrawn Loan Commitments	82,897,851	-	82,897,851
Interest Rate Swaps	30,000,000	20,000,000	50,000,000
Total Financial Liabilities	1,203,720,550	107,256,106	1,310,976,656

2012	Within 12 Months	After 12 Months	Total
Assets			
Cash	29,127,209	-	29,127,209
Accrued receivables	6,842,430	-	6,842,430
Receivables from Financial Institutions	100,000,000	5,000,000	105,000,000
Investment Securities	89,603,922	23,338,957	112,942,879
Loans and Advances	41,047,081	920,609,960	961,657,041
Available for Sale Investments	-	7,724,296	7,724,296
On Balance Sheet Financial Assets	266,620,642	956,673,213	1,223,293,855
Interest Rate Swaps	-	50,000,000	50,000,000
Total Financial Assets	266,620,642	1,006,673,213	1,273,293,855
Liabilities			
Creditors and Accruals	5,375,698	-	5,375,698
Creditors Interest Payable on deposits	8,760,743	-	8,760,743
Deposits from Members - At Call	412,620,969	-	412,620,969
Deposits from Members - Fixed Term	577,043,065	86,451,399	663,494,464
Negotiable Certificate of Deposit	-	-	-
Withdrawable Shares	389,610		389,610
Borrowings	-	-	-
On Balance Sheet Financial Liabilities	1,004,190,085	86,451,399	1,090,641,484
Undrawn Loan Commitments	84,961,649	-	84,961,649
Interest Rate Swaps	-	50,000,000	50,000,000
Total Financial Liabilities	1,089,151,734	136,451,399	1,225,603,133

27. Interest Rate Change Profile of Financial Assets and Liabilities

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits and Term Investments) or after adequate notice is given (Loans and Savings). The following table shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2013	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
Assets						
Cash	14,326,857	-	-	-	2,371,250	16,698,107
Accrued Receivables	-	-	-	-	3,536,206	3,536,206
Receivables from Financial Institutions	-	101,000,000	17,000,000	-	-	118,000,000
Investment Securities	-	126,771,321	18,672,922	-	-	145,444,243
Loans and Advances	830,905,123	2,823,238	35,784,141	158,180,929	-	1,027,693,431
Available for Sale Investments	-	-	-	-	8,183,418	8,183,418
On Balance Sheet Financial Assets	845,231,980	230,594,559	71,457,063	158,180,929	14,090,874	1,319,555,405
Interest Rate Swaps	-	50,000,000		-	-	50,000,000
Total Financial Assets	845,231,980	280,594,559	71,457,063	158,180,929	14,090,874	1,369,555,405
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	12,661,359	12,661,359
Deposits from Members - At Call	433,983,416	-	-	-	-	433,983,416
Deposits from Members - Fixed Term	-	476,366,756	132,500,033	87,256,106	-	696,122,895
Negotiable Certificate of Deposit	-	24,773,059	9,906,351			34,679,410
Withdrawable Shares	-	-	-	-	376,450	376,450
Borrowings	-	-	255,274	-	-	255,274
On Balance Sheet Financial Liabilities	433,983,416	501,139,815	142,661,658	87,256,106	13,037,809	1,178,078,804
Undrawn Loan Commitments	82,897,851	-	-	-	-	82,897,851
Interest Rate Swaps	-	-	30,000,000	20,000,000	-	50,000,000
Total Financial Liabilities	516,881,267	501,139,815	172,661,658	107,256,106	13,037,809	1,310,976,655

2012	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
Assets						
Cash	26,838,481	-	-	-	2,288,728	29,127,209
Accrued Receivables	-	-	-	-	6,842,430	6,842,430
Receivables from Financial Institutions	-	88,000,000	17,000,000	-	-	105,000,000
Investment Securities	-	85,530,621	27,412,258	-	-	112,942,879
Loans and Advances	806,344,970	10,926,515	15,286,269	129,099,287	-	961,657,041
Available for Sale Investments	-	-	-	-	7,724,296	7,724,296
On Balance Sheet Financial Assets	833,183,451	184,457,136	59,698,527	129,099,287	16,855,454	1,223,293,855
Interest Rate Swaps	-	50,000,000	-	-	-	50,000,000
Total Financial Assets	833,183,451	234,457,136	59,698,527	129,099,287	16,855,454	1,273,293,855
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	14,136,441	14,136,441
Deposits from Members - At Call	412,620,969	-	-	-	-	412,620,969
Deposits from Members - Fixed Term	-	424,340,032	152,703,033	86,451,399	-	663,494,464
Negotiable Certificate of Deposit	-	-	-	-	-	-
Withdrawable Shares	-	-	-	-	389,610	389,610
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	412,620,969	424,340,032	152,703,033	86,451,399	14,526,051	1,090,641,484
Undrawn Loan Commitments	84,961,649	-	-	-	-	84,961,649
Interest Rate Swaps	-	-	-	50,000,000	-	50,000,000
Total Financial Liabilities	497,582,618	424,340,032	152,703,033	136,451,399	14,526,051	1,225,603,133

28. Net Fair Value of Financial Assets and Liabilities

Net Fair Value is an estimate of the present market value of each asset or liability and has been calculated to show the difference between the current and future value of funds at the present time. Where the assets/liabilities are short term in nature or reprice frequently, then the net fair value is stated at book value.

The information is only relevant to circumstances at Balance Date and will vary depending on the contractual rates applied to each asset and liability. No assets held are regularly traded by the Bank.

Assets

	Receivables from other Financial Institutions		Loans & Advances (before Provision)	
	2013 $	2012 $	2013 $	2012 $
Net Fair Value	258,998,236	214,970,782	1,031,501,098	964,072,669
Book Value	263,444,243	217,942,879	1,030,428,009	964,003,094
Variance	(4,446,007)	(2,972,097)	1,073,089	69,575

Liabilities

	Payable to other Financial Institutions		Member Deposits		Interest Rate Swaps	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
Net Fair Value	34,722,005	-	1,131,275,279	1,077,160,448	48,854,020	48,257,439
Book Value	34,679,411	-	1,130,482,761	1,076,505,043	50,000,000	50,000,000
Variance	42,594	-	792,518	655,405	(1,145,980)	(1,742,561)

29. Expenditure Commitments

a. Future Capital Commitments

The Bank has entered into a contract to build new head office accommodation (2012 $0).

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Within 1 year	403,172	-	403,172	-
1 to 2 years	11,974,366	-	11,974,366	-
2 to 5 years	-	-	-	-
over 5 years	-	-	-	-
	12,377,538	-	12,377,538	-

b. Future Lease Rental Commitments

Future lease rental commitments are $4,383,723 (2012 $6,208,940). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Within 1 year	1,775,484	1,964,836	1,775,484	1,964,836
1 to 2 years	1,583,508	1,935,687	1,583,508	1,935,687
2 to 5 years	730,912	2,023,155	730,912	2,023,155
over 5 years	293,819	285,262	293,819	285,262
	4,383,723	6,208,940	4,383,723	6,208,940

30. Financial Commitments

a. Loan Commitments

Loans approved but not funded as at 30 June 2013 total $28,288,474 (2012 $31,326,976).

b. Undrawn Loan Facilities

Loan facilities available to Members for Overdrafts, Credit Card and Redraw Loans are as follows:

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Total value of facilities approved	101,049,406	102,264,354	101,049,406	102,264,354
Less: Amount outstanding at balance day	46,440,029	48,629,681	46,440,029	48,629,681
Net undrawn value	54,609,377	53,634,673	54,609,377	53,634,673

31. Standby Borrowing Facilities

The Bank has the following credit facilities with Cuscal:

Overdraft

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Approved Limit	12,000,000	12,000,000	12,000,000	12,000,000
Less: Amount drawn	-	-	-	-
Available to draw	12,000,000	12,000,000	12,000,000	12,000,000

These commitments are contingent on Members maintaining credit standards and on-going repayment terms on amounts drawn. Under the contracts, the Bank has the right to withdraw the facilities at any time without notice. Draw down of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of the Bank as security against loan and overdraft amounts drawn.

32. Contingent Liabilities

Liquidity Support Scheme

The Bank is a Member of CUFSS Ltd, a company established to provide financial support to Member Mutual ADIs in the event of a liquidity or capital problem arising. As a Member, the Bank is committed to maintaining an amount equivalent to 3.2% of total assets as deposits with Cuscal and/or a Cuffs approved Authorised Deposit-taking Institution (ADI). The maximum call for each Member ADI would be 3.2% of the Bank's total assets. The Bank has the opportunity under certain circumstances to draw on this scheme.

Employee Entitlements

The Bank has a potential liability for the payment of entitlements to employees consequent on the dismissal of an employee, the amount of which cannot be determined. At the time of this report there are no matters outstanding.

33. Disclosures on Key Management Personnel

a. Remuneration of Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly including any Director (whether Executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons have been taken to comprise the Directors and the 4 Members of the Executive Management responsible for the day to day financial and operational management of the Bank.

The aggregate compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	2013			2012		
	Directors $	Other KMP $	Total $	Directors $	Other KMP $	Total $
(a) short term employee benefits	492,020	1,554,815	2,046,835	422,758	1,506,209	1,928,967
(b) Post-employment benefits - Superannuation Contributions	46,524	96,320	142,844	45,181	146,906	192,087
(c) Other long-term benefits - net increases in Long Service leave provision	-	23,710	23,710	-	26,810	26,810
(d) Termination benefits	160,480	-	160,480	-	-	-
(e) Share-based Payment	-	-	-	-	-	-
Total	699,024	1,674,845	2,373,869	467,939	1,679,925	2,147,864

In the above table, remuneration shown as "short term benefits" means wages, salaries, paid annual leave and paid sick leave, bonuses, value of Fringe Benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Bank.

Note the AASB 124 standard does not specifically require the separation of the Directors and Executive remuneration.

This note should be read in conjunction with note 19 of the financial statements.

Other Transactions with Key Management Persons

The disclosures are made in accordance with AASB 124 and include disclosures relating to policy for lending to related parties and, in respect of related party transactions, the amount included in:

(i) each of the loans and advances, deposits and acceptances and promissory notes;

(ii) each of the principal types of income and interest expense;

(iii) the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and

(iv) irrevocable commitments and contingencies arising from off balance sheet items.

b. Loans to Directors and Other Key Management Persons

		Consolidated 2013 $	Consolidated 2012 $	Police Bank 2013 $	Police Bank 2012 $
(i)	The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to	1,228,817	1,124,394	1,228,817	1,124,394
(ii)	The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	104,000	71,000	104,000	71,000
	Less amounts drawn down and included in (i)	60,886	16,402	60,886	16,402
	Net balance available	43,114	54,598	43,114	54,598
(iii)	During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to:				
	Revolving Credit Facilities	152,666	90,223	152,666	90,223
	Personal Loans	-	-	-	-
	Term Loans	50,870	62,000	50,870	62,000
Total		203,536	152,223	203,536	152,223
(iv)	During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-	-	-
(v)	Interest and other revenue earned on Loans and Revolving Credit facilities to Key Management Personnel.	45,769	129,023	45,769	129,023

The Bank's policy for lending to Directors and Management is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Director's or other KMPs.

KMP who are not Directors received a concessional rate of interest on their loans and facilities. These benefits were subject to Fringe Benefits Tax and are included in the remunerations in 33.b. above.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

Other transactions between related parties include deposits from Directors, and other KMP are:

	Consolidated 2013	Consolidated 2012	Police Bank 2013	Police Bank 2012
Total value Term and Savings Deposits from KMP	2,974,955	3,064,070	2,974,955	3,064,070
Total Interest paid on Deposits to KMP	134,170	237,538	134,170	237,538

The Bank's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit.

c. Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family Members of Directors, and other KMP.

The Bank's policy for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which apply to Members.

There are no benefits paid or payable to the close family members of the Key Management Persons. There are no service contracts to which Key Management Persons or their close family members are an interested party.

34. Events Occurring after the Balance Date

There were no events that have occurred since 30 June, 2013 that will have significant impact upon the Bank.

35. Superannuation Liabilities

If an employee does not nominate a fund of choice, the Bank contributes to one of two superannuation funds. One being the NGS Super which is an industry fund. The Bank has no interest in the Superannuation Fund (other than as a contributor to comply with Superannuation Guarantee Levy) and is not liable for the performance of the plan nor the obligations of the plan.

The other fund is a Corporate Master Trust which is administered by MLC Limited. It is a contribution accumulated type fund. The Bank has no legal obligation to cover any shortfall in the Fund's obligation to provide benefits to employees on retirement. In the event the Fund is terminated, Members are only entitled to the balance of their account within the fund. As at the date of the last annual review being 30 June 2013, the fund had reserves equal to Members accumulated balances.

The Bank is legally obligated to contribute to the Fund as per the Superannuation Guarantee Levy Act and for employees who have a contract of service. These obligations are enforceable. As at the date of this report there is:

1. No outstanding payments due by the Bank.
2. No former employee or any individual associated with a former employee or an entity of a former employee receiving or entitled to receive a benefit under the Corporate Master Trust.

36. Transfers of Financial Assets

The Bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

(i) The repurchase obligation (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not de-recognised as the Bank retains the benefits of the trust until such time as a drawing is required.

(ii) The Integris securitisation trust where the Bank acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

(a) Securitised loans retained on the balance sheet - Repurchase Obligation REPO Trust

The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are primarily variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

The REPO trust is a trust established by the Bank to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the Bank receives a Warrant certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Warrant is secured over residential mortgage-backed securities (RMBS),

The Bank has financed the loans and received the net gains or losses from the trust after trustee expenses. The Bank has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Warrants received. The Bank retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Repo trust fails to meet the trust's criteria, the Bank is obliged to repurchase those loans and substitute equivalent qualifying loans into the trust.

	2013 $	2012 $
Loans and Receivables	74,889,521	95,803,487
Fair Value of associated liabilities	4,595,061	4,579,499

	2013 $	2012 $
Off Balance Sheet Financial Commitments	7,304,914	8,783,281
Notes Issued	-	24,400,000

(b) Securitised loans not on the balance sheet - Derecognised in their entirety

The Integris securitisation trust is an independent securitisation vehicle established by the peak Bank body, Cuscal.

The Bank has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Bank also manages the loans portfolio on behalf of the trust. The Bank bears no risk exposure in respect of these loans. The Bank receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

In addition the Bank is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the Bank assigned $0 in loans to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Bank. The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

The Bank does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

	2013 $	2012 $
Integris securitisation trust (bulk items only)	3,125,317	4,348,300
Net income received from the continuing involvement cumulatively	29,217	32,768

37 Notes to Cash Flow Statement Liabilities

a. Reconciliation of Cash

Cash includes cash on hand and deposits at call with Cuscal net of overdraft.

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Cash as at balance date comprises:				
Cash on Hand	6,098,144	6,627,229	6,030,607	6,592,197
Deposits at Call	10,599,963	22,499,980	10,599,963	22,499,980
Less: Overdraft with Cuscal	-	-	-	-
	16,698,107	29,127,209	16,630,570	29,092,177

b. Member deposits and shares are shown net of deposits and withdrawals.

c. The net cash from Operating Activities is reconciled to the Operating Profit and Extraordinary Item after Income Tax.

	Consolidated		Police Bank	
	2013 $	2012 $	2013 $	2012 $
Operating Profit after Income Tax	10,071,129	10,345,035	10,036,712	10,303,623
Add (Deduct):				
Bad Debts Written Off	535,004	490,370	535,004	490,370
Depreciation Expense	1,154,530	1,445,482	1,141,905	1,436,236
Increase in Provision for Employee Entitlements	98,113	318,659	98,113	318,659
Accrued Expenses	(1,362,718)	(1,677,197)	(1,478,121)	(1,700,197)
Loss on Sale of Assets	(52,093)	(42,214)	(52,093)	(45,982)
Decrease (Increase) in Prepayments	22,600	176,791	22,600	176,791
Increase (Decrease) in Unearned Income	290,561	163,158	290,561	163,158
Amortised Loan Transaction Costs	49,518	(3,290)	49,518	(3,290)
Decrease (Increase) in Sundry Debtors	3,306,068	(4,266,561)	3,353,533	(4,271,335)
Increase (Decrease) in Deferred Taxes Payable	81,040	85,428	81,040	85,428
Provisions for Income Tax	397,223	(1,350,697)	350,586	(1,330,802)
Other Provisions	194,702	289,410	194,702	289,410
Dividend Paid	(20,000)		-	
Derivative Fair Value	-	(18,399)	-	(18,399)
Net Cash from Operating Activities	14,765,677	5,955,975	14,624,060	5,893,670

Compliance Statistics

a. Capital Adequacy

At all times the Bank must maintain a minimum of 8% capital adequacy ratio. The capital adequacy ratio is a measure of reserves, general provisions for doubtful debts less an amount equal to the future income tax benefit as a percentage of the risk weighted value of assets. The Bank's ratio as at balance date was 18.47% (2012 19.23%).

b. Liquidity

The Bank is required to maintain at all times liquid assets at a minimum level of 9% of its liability base in High Quality Liquid Assets. These percentages were exceeded for the whole year. In addition to liquid assets the Bank has in place confirmed standby lines available to it. The High Quality Liquid Asset Ratio as at balance date was 12.20% (2012 12.39%).

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Affiliations

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NSW Police Force

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