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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

	Membership	Capital Adequacy
2014	76,470	18.72%
2013	75,668	18.47%

	Total Assets $000's	Loans $000's	Deposits $000's	Reserves $000's
2014	1,394,626	1,065,998	1,099,555	154,678
2013	1,327,419	1,030,428	1,130,483	143,244

DIRECTORS' REPORT

Your Directors submit the Financial Accounts of the Bank for the financial year ended 30 June 2014.

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)
Colin James Dyson (Deputy Chairman)
Raff Del Vecchio
Geoffrey Richard Green
Anthony Raymond Lauer
Gregory John McKenna
Kenneth Edward Moroney (retired July 2013)
Robert John Redfern
Lloyd William Taylor

	Board		Audit Committee		Other Committees	
	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended
Walton	12	12	2	2	3	3
Dyson	12	12	4	4	3	3
Del Vecchio	12	12	-	-	7	7
Green	12	12	1	2	7	9
Lauer	11	12	-	-	12	14
McKenna	12	12	4	4	-	-
Redfern	12	12	2	4	-	-
Taylor	12	12	-	-	15	15

Directors also attended a 1 day Strategic Planning Workshop on Tuesday, 4 February 2014 and a weekend planning session on Saturday 24 & Sunday 25 May 2014 to formulate the Strategic Plan for 2014-2019 and Business Plan for 2014-2015.

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 34 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 amounted to $10,257,959 with a return on average assets of 0.75%. Assets increased during the year by $67.2M from $1,327.4M to $1,394.6M. The year's growth had no impact on the capital adequacy ratio which is 18.72%. At 18.72% the capital adequacy ratio remains well above the statutory minimum of 8%. The Bank loan portfolio grew by 3.5% during the year.

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 2015 will be similar to those achieved in 2014.

Dividends

Dividends paid or declared by the Consolidated Group since the end of the previous financial year was $410,000 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 2014 winners:

  Annette Smith – Transaction Services Goulburn
  Chantelle Haynes - Goulburn Service Centre
  Glynnis Trewenack – Assistance Centre
  Madelyn Cruz – Bridges Penrith
  Martine Gilliot – Customs Melbourne
  Sarah Lockett – Campbelltown Service Centre

  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 Leanne Ford our 2014 winner.

- **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.

- **Financial Planning Practice.** Under the Bridges licence, Police Bank acquired an established financial planning practice in Newcastle. This practice compliments our Penrith operation and allows us to better service our Members in the Hunter Region with financial planning and investment advice.

- **Video Kiosks in Customs Bank Mascot Service Centre.** Police Bank successfully implemented a new secure video kiosk at our Customs Bank Mascot Service Centre location. This technology allows Members the convenience of interacting face to face via a video link with one of our Member Service Officers. The second stage of this project will allow Members to communicate through this channel from their home computer or remote tablet device.

- **Additional Products/Enhancements:**
  Industry Product Awards. Police Bank received Awards from independent rating agencies during the year. Our First Home Saver Account was once again awarded the 'Best First Home Saver Account' by Money Magazine in their 2014 Best of the Best Awards. Our account was recognised for its nil/low account fees and high interest paid on savings.

  Canstar also awarded Police Bank for 'Best Online Banking' in the Mutual Banks category. Our online banking 'product was recognised for outstanding features, functionality and increased flexibility. Police Bank's website was awarded for easy navigation, useful online features and quick access to information. Our social media team was also highly rated.

  In addition, Police Bank won 2 awards in the inaugural Mozo Expert Choice Credit Cards Awards, with a Gold Medal for 'Best Balance Transfer Credit Card' and a Highly Commended for 'Best Low Rate Credit Card'.

  New Responsive Web Design With the increase in use of mobile devices by our Members, Police Bank undertook a project to upgrade our website aimed at crafting our site to provide an optimal viewing experience. Members now enjoy easy reading and navigation with a minimum of resizing, panning and scrolling across a wide range of devices. Whatever the device a Member is on when visiting our website, they are presented with the same consistent content.

  Fraud Monitoring. Police Bank's staff continue to closely monitor transactions, such as ATM and Visa Card transactions, for any possible fraudulent activity on Member's accounts. Monitoring tools facilitate quick contact with our Members to manage illegitimate or fraudulent behaviour on accounts to eliminate/minimise any loss.

  50th Year Anniversary. 2014 marks 50 years of operation for Police Bank/Police Credit Union. In recognition of this significant milestone, a number of marketing events and promotions have been organised to show our appreciation to Members for their ongoing support.

  Mobile Banking Enhancements. During the year Police Bank extended the functions available through the mobile banking service to mirror more closely our internet banking functionality with options such as maintaining future periodical payments and loan redraw.

  In addition Police Bank introduced the new 'PayAnyone' functionality that enables our Members (who are registered for Internet Banking) to make payment using the recipient's Australian mobile phone number or email address.

  Increased processing of direct debits and credits. For added convenience for our Members, Police Bank are now processing direct credits and debits multiple times each day. This means payments will reach their destination faster, usually within 24 hours.

  Introduction of Home Buyers and Property Investment Seminars. Police Bank held during the year two property seminars to inform and assist Members who are looking to invest in real estate. With a number of professional speakers, the seminars provided both first home owners and investors with a detailed understanding of the real estate market, the buying process and loan options.

  Member Research. Police Bank independently surveyed a number of our Members to obtain feedback on our products and service levels. The organisation received pleasing results on our performance with Members rating us with an overall 92% Member Satisfaction Rating which is an above industry result.

- **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 another Family Fun Day was 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 300 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 2014 at North Ryde Golf Course. The successful event was well supported by Members with all money raised from the day being donated to 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.
- **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 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:

- **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 2014 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 $16.6M for the year ending 30 June 2015. This covers general equipment, core banking upgrades, computer hardware upgrades and investment in property for head office accommodation.

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 2014, 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 AUDIT PTY LTD
Chartered Accountants

GS Layland
Director - Audit & Assurance

Sydney, 2 October 2014

Information on Directors and Secretary

Mr D C Walton — **Chairman**

Remuneration Committee (Chairman)

Age: 49

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, NSW Police RSL Sub-Branch
Fellow, Australian Institute of Company Directors
Member, Australasian Mutuals Institute
Auditor, Police Provident Fund (2005 – 2010)
Manager Academic Programs – International, Australian Institute of Police Management, AFP (2011 – 2012)
Former Detective Inspector, NSW Police Force
Detective Fraud Squad
Casual Academic Staff Member, Charles Sturt University (Graduate School of Policing)
Casual Academic Staff Member, University of Western Sydney (Policing Studies) (1997 – 2008)
Executive Manager, Internal Audit, Investigations & Risk Management, Energy Australia (AusGrid) (2009 – 2011)
Board Member since 2001

Directorships: Chelsea Wealth Management Pty Limited

Interest in Shares: $10.00 in ordinary shares in the Police Bank

Mr C J Dyson — **Deputy Chairman**

Audit & Risk Committee
Remuneration Committee

Age: 60

Qualifications:
Advanced Certificate, Personnel Management (TAFE 1991)
NSWPF Command Development Program (1997)
Graduate Certificate, Management (Wollongong University 1999)
NSWPF Strategic Leadership Program (2011)
Company Directors Course (Aust Institute of Company Directors 2013)
Life Member, International Assoc of Financial Crime Investigators
Member, Association of Certified Anti-Money Laundering Specialists
Member, Australian Institute of Company Directors
Member, Retired Police Association

Experience:
Former Detective Superintendent of Police
Former Commander of the NSWPF Fraud and Cybercrime Squad

Directorships: Chelsea Wealth Management Pty Limited

Awards:
Australian Police Medal
National Medal-2nd clasp
NSW Police Medal-6th clasp
National Police Service Medal

Interest in Shares: $10.00 in ordinary shares in the Police Bank

Mr R Del Vecchio — **Director**

Corporate Governance Committee (Chairman)
Remuneration Committee

Age: 45

Qualifications:
Company Directors Course Diploma, Australian Institute of Company Directors
Corporate Governance Program, Harvard Business School
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 Mary 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 G R Green — **Director**

	Audit & Risk Committee
	Corporate Governance Committee
Age	68
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

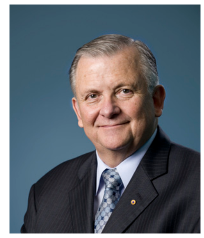
Mr A R Lauer — **Director**

	Credit Committee
	Remuneration Committee
Age	78
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 McKenna — **Appointed Director**

	Audit & Risk Committee
Age	45
Qualifications	Bachelor of Business (Banking & Finance) 1996 Monash University
	Master of Applied Finance 2002
	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	68
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	52
Qualifications	Executive Masters in Public Administration Bachelor of Laws Bachelor of Economics Diploma in Applied Criminology and Police Management Master of Studies (Cantab)
Other Qualifications	Awarded the Australian Police Medal Awarded National Medal Awarded the Commissioners Commendation for Service
Experience	Current Commander Workforce Safety NSWPF 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 Former Commander of Parramatta and Miranda LACs 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	74
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
	Member, Retired Police Association
	Member, Police Education Advisory Committee (1988 – 1996)
	Member, Police Superannuation Advisory Committee (1986 – 1997)
	Foundation Member, Police Legacy
	Board Member since 1988
Interest in Shares	$10.00 in ordinary shares in the Police Bank

Mr B A Williams	**Secretary**
Age	59
Qualifications	Master of Business in Finance
	FCIS
Experience	41 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
2nd October 2014

Colin Dyson
Deputy Chairman

Police Bank Ltd

Directors' Declaration

The Directors of Police Bank Ltd declare that:

In the opinion of the directors of Police Bank Ltd:

a) the financial statements and notes of Police Bank Ltd and its controlled entities 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 2014 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.

c) the financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors.

David C Walton
Chairman
2nd October 2014

Colin Dyson
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 consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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 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 consolidated entity's financial position as at 30 June 2014 and of its 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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

GS Layland
Director - Audit & Assurance
Sydney, 2 October 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2014

		Consolidated		Police Bank	
		2014	2013	2014	2013
		$	$	$	$
	Note				
Interest Revenue	2a	75,721,985	79,200,032	75,721,821	79,199,104
Borrowing Costs	2b	38,671,134	42,853,658	38,671,134	42,853,658
Net Interest Revenue		37,050,851	36,346,374	37,050,687	36,345,446
Other revenue from ordinary activities	3	9,743,705	7,761,275	7,894,090	7,163,457
Impairment losses on Loan Receivables from Members	4a	666,756	583,450	666,756	583,450
Fees and Commission		5,512,280	5,398,675	5,512,280	5,398,675
General Administration					
- Personnel expenses		14,845,899	14,042,973	14,258,724	13,766,433
- Depreciation and amortisation		1,132,601	1,154,530	1,081,037	1,141,905
- Lease expenses		2,238,707	1,922,233	2,238,707	1,922,233
- Other administration expenses		4,067,887	3,719,546	3,413,991	3,506,474
Other operating expenses		3,759,903	3,016,264	3,759,903	3,016,264
Operating Profit before Income Tax		14,570,523	14,269,978	14,013,379	14,173,469
Income Tax Expense	5	4,312,564	4,198,849	4,035,033	4,136,757
Operating Profit after Income Tax		10,257,959	10,071,129	9,978,346	10,036,712
Other comprehensive income that will be eventually recognised in income					
- Changes in the fair value of cash flow hedges		551,071	596,581	551,071	596,581
- Gain on Available for Sale Investment		-	3,801	-	3,801
Total comprehensive income		10,809,030	10,671,511	10,529,417	10,637,094
Attributable to:					
Non Controlling Interests		6,478	761	-	-
Members of the parent entity		10,802,552	10,670,750	10,529,417	10,637,094
		10,809,030	10,671,511	10,529,417	10,637,094

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 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
Balance 1 July 2013	353,440	98,187,016	2,543,732	3,400,306	268,875	1,430,212	36,851,020	143,034,601
Operating Profit for the year	-	9,978,346	-	-	-	-	-	9,978,346
Transfers to and from Reserves								-
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	11,080	(11,080)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(157,000)	-	157,000	-	-	-	-
- Dividends Paid	-	-	-	-	-	-	-	-
Gain on Available for Sale Investment	-	-	-	-	-	-	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	551,071	551,071
Balance 30 June 2014	364,520	106,797,282	2,543,732	3,557,306	268,875	1,430,212	38,602,091	153,564,018

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 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
Balance 1 July 2013	353,440	98,267,432	2,543,732	3,400,306	268,875	1,430,212	36,979,564	143,243,561
Operating Profit for the year	-	10,257,959	-	-	-	-	-	10,257,959
Capital Contribution by non-controlling interest	-	-	-	-	-	-	937,337	937,337
Profit attributable to non-controlling Interest	-	6,478	-	-	-	-	(6,478)	-
Transfers to and from Reserves								-
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	11,080	(11,080)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(157,000)	-	157,000	-		-	-
- Dividends Paid	-	(82,000)	-	-	-	-	-	(82,000)
- Dividends Accrued	-	(230,000)	-	-	-	-	-	(230,000)
Gain on Available for Sale Investments	-	-	-	-	-	-	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	551,071	551,071
Balance 30 June 2014	364,520	106,851,789	2,543,732	3,557,306	268,875	1,430,212	39,661,494	154,677,928

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	Consolidated 2014 $	Consolidated 2013 $	Police Bank 2014 $	Police Bank 2013 $
Assets					
Cash and Liquid Assets	6	37,009,510	16,698,107	36,656,241	16,630,570
Receivables due from other Financial Institutions	7	106,000,000	118,000,000	106,000,000	118,000,000
Accrued Receivables	8	4,284,567	4,150,102	4,041,524	4,062,418
Investment Securities	9	164,802,765	145,444,243	164,802,765	145,444,243
Loans and Advances	10&11	1,063,104,602	1,027,693,431	1,063,104,602	1,027,693,431
Available for Sale Investments	12	7,355,645	8,183,418	11,442,209	8,705,812
Property Plant and Equipment	13	5,359,307	4,174,451	5,163,456	4,145,170
Intangible Assets	14	5,207,821	1,298,431	160,923	359,758
Taxation Assets	15	1,501,611	1,776,608	1,501,611	1,776,608
Derivative Fair Value		-	-	-	-
Total Assets		1,394,625,828	1,327,418,791	1,392,873,331	1,326,818,010
Liabilities					
Payables to other Financial Institutions	16	120,758,912	34,934,685	120,758,912	34,679,411
Deposits and Borrowings	17	1,099,555,244	1,130,482,761	1,099,555,244	1,130,482,761
Creditors and other Liabilities	18	13,824,999	12,661,359	13,655,253	12,586,241
Provisions	19	3,198,480	3,218,189	2,968,480	3,218,189
Taxation Liabilities	20	2,015,356	1,732,256	1,776,515	1,670,827
Derivative Fair Value		594,909	1,145,980	594,909	1,145,980
Total Liabilities		1,239,947,900	1,184,175,230	1,239,309,313	1,183,783,409
Net Assets		154,677,928	143,243,561	153,564,018	143,034,601
Member Funds					
Capital Account	21	364,520	353,440	364,520	353,440
Reserves		46,997,125	45,640,125	46,997,125	45,640,125
Retained Profits		106,851,789	98,267,432	106,797,282	98,187,016
Cash Flow Hedge Reserve		(594,909)	(1,145,980)	(594,909)	(1,145,980)
Non-Controlling Interest		1,059,403	128,544	-	-
Total Member Funds		154,677,928	143,243,561	153,564,018	143,034,601

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 2014

		Consolidated		Police Bank	
		2014 $	2013 $	2014 $	2013 $
Cash Flow From Operating Activities	Note				
Interest Received - Loans		63,131,463	66,061,509	63,131,463	66,061,509
Other Income		22,017,928	20,746,771	20,168,149	20,148,025
Dividends Received		541,053	455,524	541,053	455,524
Interest Paid		(39,122,361)	(44,026,268)	(39,122,361)	(44,026,268)
Suppliers and Employees		(28,604,819)	(24,744,424)	(28,140,234)	(24,307,295)
Taxes Paid		(3,685,243)	(3,707,435)	(3,685,243)	(3,707,435)
Net Cash from Revenue Activities	38c	14,278,021	14,785,677	12,892,827	14,624,060
Inflows from Other Operating Activities					
Net Movement in Member Loans		(36,094,472)	(66,959,919)	(36,094,472)	(66,959,919)
Net Movement in Member Shares		(11,070)	(13,160)	(11,070)	(13,160)
Net Movement in Deposits		(30,916,447)	53,990,878	(30,916,447)	53,990,878
Net Cash from Operating Activities		(52,743,968)	1,803,476	(54,129,162)	1,641,859
Cash Flows from Investing Activities					
Investment Redemption		874,942,558	715,463,989	874,942,558	715,463,989
Proceeds from Sale of Fixed Assets		222,642	105,750	222,642	105,750
Purchase of Investments		(881,473,308)	(761,424,475)	(885,037,478)	(761,946,869)
Purchase of Fixed Assets		(1,982,257)	(1,635,100)	(2,052,390)	(2,405,747)
Purchase of Planning Business		(4,396,491)	(1,657,427)	-	-
Movement in Reserves		-	-	-	-
Net Cash Used in Investing Activities		(12,686,856)	(49,147,263)	(11,924,668)	(48,782,877)
Cash Flow from Financing Activities					
Net Movement in Borrowings		85,824,227	34,934,685	86,079,501	34,679,411
Dividend Paid		(82,000)	(20,000)	-	-
Net Cash Provided by Financing Activities		85,742,227	34,914,685	86,079,501	34,679,411
Net Increase (Decrease) in Cash		20,311,403	(12,429,102)	20,025,671	(12,461,607)
Cash at Beginning of Year		16,698,107	29,127,209	16,630,570	29,092,177
Cash at End of Reporting		37,009,510	16,698,107	36,656,241	16,630,570
Reconciliation of Cash at End of Reporting Period	38a				
Cash		8,120,249	6,098,144	7,766,980	6,030,607
Overdraft		-	-	-	-
Deposits at Call		28,889,261	10,599,963	28,889,261	10,599,963
Total		37,009,510	16,698,107	36,656,241	16,630,570

NOTES TO AND FORMING PART OF THE ACCOUNTS

1. Statement of Accounting Policies

This financial report is prepared for Police Bank Limited and subsidiaries' for the year ended the 30 June 2014. The report was authorised for issue on 2nd October 2014 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars.

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 Limited 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 [except for real property and available for sale investments which are stated at fair value]. The accounting policies are consistent with the prior year unless otherwise stated.

b. 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.

c. 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.

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 fair value through profit or loss (FVTPL)

Financial assets at 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.

Held to maturity (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.

d. Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include borrowings, trade 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 fair value through profit or loss (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 is reflected in profit or loss, any gain or loss from the hedging instrument previously recognised in other comprehensive income is reclassified from equity to profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. 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.

e. Loans to Members

Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement 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 impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt 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.

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, and included as part of interest revenue.

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

Net gains and losses

Net gains and losses on loans to Members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

f. Loan Impairment

Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided 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 used in the calculation are as set out in Note 11. Note 23 details the credit risk management approach for loans.

The APRA Prudential Standards require 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 statement of financial position 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.

Reserve for credit losses

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.

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.

g. Bad Debts Written Off

Bad debts are written off from time to time as determined by Management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the income statement.

h. Property, Plant and Equipment

Land and buildings are measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the income statement. Revaluation decreases are debited to the income statement unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Property, plant and equipment, with the exception of freehold land, are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Bank. The useful lives are adjusted if appropriate at each reporting date. 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.

i. Receivables from other Financial Institutions

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

All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

j. Equity Investments and other Securities

Investments in marketable financial instruments

Available for sale financial instruments held for trading are measured at fair value.

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.

Investments in shares

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 statement of financial position date.

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.

Movements in Available for Sale asset balances are reflected in equity through the Available for Sale Reserve.

All investments are in Australian currency.

k. Member Deposits

Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the balance date.

Interest payable

Interest on savings is calculated on the daily balance and posted to most account types every six months at the end of June and December, or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

l. Borrowings

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

m. Provision for Employee Benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Bank does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 *Presentation of Financial Statements*.

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 income statement as incurred.

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 income statement 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 due to the unwinding of the interest charge, is recognised as part of the interest expense.

o. Income Tax

The income tax expense shown in the income statement is based on the 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 statement of financial position 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 an income tax benefit to be obtained.

p. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Bank are classified as intangible assets. Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

The acquired additional financial planning businesses during the year has been provisionally accounted for. It is expected other identifiable intangibles will be recognised when acquisition accounting is finalised.

q. Goods and Services Tax

As a Financial Institution the Bank is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned 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 (RITC), 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). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), 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. 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 cash flow statement 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.

r. 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.

s. 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.

t. 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 income statement 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 value of money and the risks specific to the asset. 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.

u. 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 37.

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

v. New standards applicable for the current year

The Bank applies the current revised accounting standards applicable for financial years commencing from the 1 July 2013. The Bank has adopted the following amended standards (over page) in the presentation of the financial report:

AASB reference	Nature of Change	Application Date	Impact on Initial Application
AASB 10 (issued August 2012) Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose 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	This standard is first adopted for the year ended 30 June 2014. There has been no impact on transactions and balances previously recognised in the financial statements since the entity was previously consolidating any special purpose entities.
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 July 2013.	The revised fair value measurement requirements apply prospectively from 1 July 2013. When this standard was adopted for the first time on 1 July 2013, additional disclosures were required about fair values. The assets impacted relate to the shares in Cuscal which are not material to the financial statements.
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 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 will in future be discounted when calculating leave liability.	Annual reporting 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 AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. This standard has been adopted for the year ended 30 June 2014. There was no material impact on transactions and balances in the financial statements.

w. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting period. The Bank's assessment of the impact of these new standards and interpretations is set out below. 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 classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: Classification and measurement of financial liabilities; and Derecognition 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 2017. Note that, in November 2013, the IASB deferred the mandatory effective date of IFRS 9 from '1 January 2015' to 'indefinitely'. At its 11-12 December 2013 meeting, the AASB tentatively decided to defer the effective date of AASB 9 to 1 January 2017, however the AASB is yet to issue a formal amendment to AASB 9.	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2018 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.

2. Statement of Profit or Loss and Other Comprehensive Income

a. Analysis of Interest Revenue

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Category of Interest Bearing Assets				
Cash - Deposit	840,382	1,031,203	840,382	1,031,203
Receivables from Financial Institutions	11,750,140	12,107,320	11,749,976	12,106,392
Loans and Advances	63,131,463	66,061,509	63,131,463	66,061,509
Total	75,721,985	79,200,032	75,721,821	79,199,104

b. Analysis of Interest Expense

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Category of Interest Bearing Liabilities				
Member Deposits	32,805,903	40,016,194	32,805,903	40,016,194
Overdraft	55,600	66,349	55,600	66,349
Other Financial Liabilities	5,809,631	2,771,115	5,809,631	2,771,115
Total	38,671,134	42,853,658	38,671,134	42,853,658

3. Profit from Ordinary Activities - Revenue

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Dividend Revenue	541,053	455,524	541,053	455,524
Fee and Commission Revenue				
- Loan Fee Income	1,362,008	1,169,940	1,362,008	1,169,940
- Other Fee Income	2,379,579	2,364,292	2,379,579	2,364,292
- Insurance Commissions	2,300,051	2,020,647	2,300,051	2,020,647
- Other Commissions	2,884,234	1,395,862	1,034,619	798,044
Bad Debts Recovered	124,195	142,906	124,195	142,906
Total Revenue from Ordinary Activities	9,591,120	7,549,171	7,741,505	6,951,353
Other Revenue				
- Income from Derivative Fair Value	-	-	-	-
- Other	152,585	212,104	152,585	212,104
Total Revenue from Other Activities	152,585	212,104	152,585	212,104
Total Revenue from Ordinary and Other Activities	9,743,705	7,761,275	7,894,090	7,163,457

4. Profit from Ordinary Activities - Expenses

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
a. Loan Impairment Losses				
Increase/(decrease) in provision for impairment	142,082	48,446	142,082	48,446
Bad Debts written off directly against profit	524,674	535,004	524,674	535,004
Total Impairment Losses	666,756	583,450	666,756	583,450
b. Other Prescribed Expense Disclosures				
Auditor's Remuneration				
- Audit Fees - Grant Thornton	143,189	151,461	143,189	151,461
- Audit Fees - Other Audit Fees	-	-	-	-
- Other Services	19,577	51,361	19,577	49,397
	162,766	202,822	162,766	200,858
Profit /(loss) on disposal of assets				
- Property, Plant and Equipment	70,741	52,093	70,741	52,093
Net movement in provision for depreciation				
- Buildings	32,139	32,139	32,139	32,139
- Plant and Equipment	724,590	715,365	673,026	702,740
- Leasehold Improvements	80,693	40,060	80,693	40,060
- Intangible Assets	295,179	366,966	295,179	366,966
Other Expense				
- Supervision Levy	74,371	57,372	74,371	57,372
- Superannuation	1,456,638	1,288,750	1,393,237	1,252,597

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	2014 $	2013 $	2014 $	2013 $
Prima facie tax payable on operating profit before income tax at 30%	4,371,157	4,280,993	4,204,014	4,252,041
Non-deductable expenditure	121,542	46,416	120,916	46,416
First Home Savers account	39,393	14,943	39,393	14,943
Building depreciation	9,642	9,642	9,642	9,642
Imputation credit	111,736	68,853	111,736	68,853
Rebate on fully franked dividends	(274,054)	(205,510)	(372,454)	(229,510)
Deduction not allowed in accounting expenses	7,833	9,140	-	-
Over provision of Income Tax Previous Year	(74,685)	(25,628)	(78,214)	(25,628)
Total	4,312,564	4,198,849	4,035,033	4,136,757
b. Income tax expense comprises amounts				
Provision for income tax attributable to current year taxable income	4,082,752	4,117,809	3,808,750	4,055,717
Movement in future income tax benefit	274,977	72,556	274,977	72,556
Movement in deferred tax liability	29,520	34,112	29,520	34,112
Over provision of Income Tax Previous Year	(74,685)	(25,628)	(78,214)	(25,628)
	4,312,564	4,198,849	4,035,033	4,136,757
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.	53,670,099	49,184,686	53,592,009	49,106,311

6. Cash and Liquid Assets

Cash on hand	2,537,201	2,371,250	2,183,932	2,303,713
Deposits at call	28,889,261	10,599,963	28,889,261	10,599,963
Cash at Bank	5,506,697	3,676,234	5,506,697	3,676,234
Security Deposits	76,351	50,660	76,351	50,660
	37,009,510	16,698,107	36,656,241	16,630,570

7. Receivables Due from other Financial Institutions

Deposits - Term	106,000,000	118,000,000	106,000,000	118,000,000

8. Accrued Receivables

Interest Receivable on deposits with other Financial Institutions	1,681,980	1,909,913	1,681,980	1,909,913
Prepayments	865,245	613,896	865,245	613,896
Sundry Debtors	1,737,342	1,626,293	1,494,299	1,538,609
	4,284,567	4,150,102	4,041,524	4,062,418

9. Investment Securities

Bank Bills and Certificate of Deposits	103,967,777	108,654,365	103,967,777	108,654,365
Floating Rate Notes	48,674,988	24,629,878	48,674,988	24,629,878
Subordinated Debt	12,160,000	12,160,000	12,160,000	12,160,000
	164,802,765	145,444,243	164,802,765	145,444,243

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.

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	2014 $	2013 $	2014 $	2013 $
Overdrafts and Revolving Credit Loans	46,666,561	46,440,029	46,666,561	46,440,029
Term Loans	1,019,331,245	983,987,980	1,019,331,245	983,987,980
	1,065,997,806	1,030,428,009	1,065,997,806	1,030,428,009
Less: Provision for Impaired Loans	1,708,980	1,566,899	1,708,980	1,566,899
Less: Unamortised Loan Origination Fees	1,245,395	1,254,318	1,245,395	1,254,318
Plus: Amortised Loan Transaction Costs	61,171	86,639	61,171	86,639
Net Loans and Advances	1,063,104,602	1,027,693,431	1,063,104,602	1,027,693,431
b. Credit Quality - Security held against Loans				
Secured by Mortgage	926,441,894	889,520,159	926,441,894	889,520,159
Secured Other	69,841,973	69,734,484	69,841,973	69,734,484
Unsecured	69,713,939	71,173,366	69,713,939	71,173,366
	1,065,997,806	1,030,428,009	1,065,997,806	1,030,428,009

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	
	2014 $	2013 $	2014 $	2013 $
- loan to valuation ratio of less than 80%;	602,282,160	582,970,862	602,282,160	582,970,862
- loan to valuation ratio of more than 80% but mortgage insured; and	292,680,272	268,153,690	292,680,272	268,153,690
- loan to valuation ratio or more than 80% and not mortgage insured.	31,479,462	38,395,607	31,479,462	38,395,607
Total	926,441,894	889,520,159	926,441,894	889,520,159
c. Concentration of Loans				
(i) Individual loans which exceed 10% of Member Funds in aggregate amount to $0.00 (2013 $0.00)	-	-	-	-
(ii) Loans to Members are solely in Australia				
(iii) Loan purpose dissection:				
- Residential	793,600,411	763,299,184	793,600,411	763,299,184
- Personal	125,364,288	125,279,922	125,364,288	125,279,922
- Commercial*	132,841,482	126,392,064	132,841,482	126,392,064
- Lease	14,191,625	15,456,839	14,191,625	15,456,839
	1,065,997,806	1,030,428,009	1,065,997,806	1,030,428,009

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

Geographical Areas

	Housing	Personal	Credit Card	Overdraft	Business	Total
Sydney City	179,677,001	20,104,498	4,592,650	2,459,916	955,032	207,789,097
Western Suburbs	180,035,904	17,225,076	3,610,914	1,368,552	53,923	202,294,369
Australian Capital Territory	140,890,174	13,028,522	2,761,921	1,492,488	-	158,173,105
Illawarra	115,772,059	11,168,498	2,027,617	852,463	-	129,820,637
Hunter Valley	90,894,267	7,912,594	1,373,397	830,786	-	101,011,044
Central Coast	51,196,469	8,449,778	1,229,282	578,912	-	61,454,441
NSW North Coast	56,392,267	5,852,941	1,091,272	1,158,513	-	64,494,993
Other States	34,164,586	3,990,929	1,264,571	1,003,533	-	40,423,619
NSW Country	28,586,508	4,434,115	624,005	412,781	-	34,057,409
Blue Mountains	31,186,995	2,049,970	439,813	226,400	-	33,903,178
South Coast	16,636,708	1,340,439	221,805	185,337	-	18,384,289

11. Provision on Impaired Loans

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
a. Total Provision Comprises				
Specific Provision	-	-	-	-
Collective Provision	1,708,981	1,566,899	1,708,981	1,566,899
	1,708,981	1,566,899	1,708,981	1,566,899
b. Movement in Specific Provision				
Balance at the beginning of the year	1,566,899	1,518,453	1,566,899	1,518,453
Add: Transfers from Income Statement	142,082	48,446	142,082	48,446
Deduct: Bad debts written off against provision	-	-	-	-
Deduct: Transfers to Income Statement	-	-	-	-
Balance at end of year	1,708,981	1,566,899	1,708,981	1,566,899
c. Impaired Loans Written Off				
Amount written off against the provision for impaired loans	-	-	-	-
Amounts written off directly to expense	524,674	535,004	524,674	535,004
Total bad debts	524,674	535,004	524,674	535,004
Bad debts recovered in the period	124,195	142,906	124,195	142,906
d. Impaired Loan Disclosures Impaired Loans as at Balance Date				
Balance of the impaired loans	2,826,485	2,437, 442	2,826,485	2,437, 442
Estimated value of loans which is secured	1,397,864	601,421	1,397,864	601,421
Loans with repayments Past Due but not impaired (due to security held)				
- Real estate	2,262,878	1,195,845	2,262,878	1,195,845
- Other	-	-	-	-

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

	Carrying Value 2014 $	Provision 2014 $	Carrying Value 2013 $	Provision 2013 $
Mortgage Insured	1,557,054	-	586,825	-
30 up to 89 days in arrears	715,216	-	889,788	-
90 to 181 days in arrears	975,977	390,391	1,004,396	401,758
182 to 272 days in arrears	1,064,964	638,978	428,370	257,022
273 to 364 days in arrears	371,323	297,058	253,598	202,878
365 days and over in arrears	273,779	273,779	570,038	570,038
Over limit facilities over 14 days	189,948	108,775	195,903	135,203
Total	5,148,261	1,708,981	3,928,918	1,566,899

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.

	2014			2013		
	Carrying Value	Value of impaired loans	Provision for impairment	Carrying Value	Value of impaired loans	Provision for impairment
Mortgages	4,128,341	2,262,878	1,337,294	2,772,920	1,797,266	1,144,850
Personal	539,897	349,449	225,379	665,904	353,595	234,688
Credit Cards	275,693	75,864	74,323	279,033	160,722	103,073
Overdrafts	476,231	138,294	71,985	506,408	125,859	84,288
Lease	17,362	-	-	-	-	-
Total to Natural Persons	5,437,524	2,826,485	1,708,981	4,224,265	2,437,442	1,566,899
Corporate Borrowers	-	-	-	-	-	-
Total	5,437,524	2,826,485	1,708,981	4,224,265	2,437,442	1,566,899

12. Available for Sale Investments

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Cuscal Member Shares (i)	2,951,205	2,951,205	2,951,205	2,951,205
Chelsea Wealth Management Pty Ltd	637,153	637,152	4,723,717	1,159,546
PCU 2009-1 Trust (ii)	3,767,287	4,595,061	3,767,287	4,595,061
	7,355,645	8,183,418	11,442,209	8,705,812

(i) The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. The Bank holds shares in Cuscal to enable the Bank to receive essential banking services. The shares are able to be traded but within a market limited to other mutual ADI's.

Management have used the unobservable inputs to assess the fair value of the shares. 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 most recent transaction value was $0.65 per share. The net dividend return in 2014 was 8.5 cents. Management has determined that the cost value of $0.60 per share is a reasonable approximation of fair value based on the likely value available on a sale.

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	
	2014	2013	2014	2013
a. Fixed assets	$	$	$	$
Land at cost	548,301	264,440	548,301	264,440
Buildings at cost	1,285,560	1,285,560	1,285,560	1,285,560
Less: Provisions for depreciation	207,730	175,591	207,730	175,591
Total Buildings	1,077,830	1,109,969	1,077,830	1,109,969
Total Land and Buildings	1,626,131	1,374,409	1,626,131	1,374,409
Plant and Equipment at cost	10,884,813	9,698,307	10,732,816	9,644,841
Less: Provision for depreciation	7,402,354	7,110,072	7,341,984	7,082,728
Total Plant and Equipment	3,482,459	2,588,235	3,390,832	2,562,113
Capitalised leasehold improvements at cost	2,731,621	2,923,316	2,606,819	2,918,117
Less: Provision for depreciation	2,480,904	2,711,509	2,460,326	2,709,469
Total Capitalised Leasehold Improvements	250,717	211,807	146,493	208,648
Closing Balance 30 June	5,359,307	4,174,451	5,163,456	4,145,170

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.

	2014			2013		
	Property	Plant & Equipment	Leasehold Improvements	Property	Plant & Equipment	Leasehold Improvements
Opening Balance 1 July	1,374,409	2,588,235	211,807	1,406,548	1,389,131	25,766
Add: Purchases in the year	283,861	1,578,793	119,603	-	1,968,126	226,101
Revaluation increase adjustments	-	-	-	-	-	-
Less: Disposal of assets	-	(30,720)	-	-	(105,750)	-
Gain/(Loss) on Sale	-	70,741	-	-	52,093	-
Depreciation charge	(32,139)	(724,590)	(80,693)	(32,139)	(715,365)	(40,060)
Closing Balance 30 June	1,626,131	3,482,459	250,717	1,374,409	2,588,235	211,807

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
14. Intangible Assets				
Computer Software	1,095,812	1,524,413	1,095,812	1,524,413
Less: Provision for Amortisation	(934,889)	(1,164,655)	(934,889)	(1,164,655)
Goodwill on acquisition of Financial Planning business	5,046,898	938,673	-	-
	5,207,821	1,298,431	160,923	359,758
Movement in the intangible asset balances during the year were:				
Opening Balance 1 July	1,298,431	567,097	359,758	513,546
Add: Purchases in the year	4,396,491	1,098,300	96,344	213,178
Less: Disposal of Assets	(191,922)	-	-	-
Depreciation charge	(295,179)	(366,966)	(295,179)	(366,966)
Closing Balance 30 June	5,207,821	1,298,431	160,923	359,758
15. Taxation Assets				
Deferred Tax Asset	1,501,611	1,776,608	1,501,611	1,776,608
Deferred Tax Asset Comprises:				
- Provision for Impairment	512,694	470,070	512,694	470,070
- Deferred Loan Origination Costs/Fees	-	-	-	-
- Provision for Staff Entitlements	959,389	1,135,691	959,389	1,135,691
- Audit Accrual	23,508	20,330	23,508	20,330
- Transitional TOFA Adjustment - Loan Fees	-	61,477	-	61,477
- Transitional TOFA Adjustment - Interest Rate Swaps	-	39,789	-	39,789
- Other	6,020	49,251	6,020	49,251
	1,501,611	1,776,608	1,501,611	1,776,608
16. Amounts Payable to Other Financial Institutions				
Overdraft Secured (Note 32)	-	-	-	-
Negotiable Certificate of Deposit	120,758,912	34,679,411	120,758,912	34,679,411
Loan Payable to Bridges Financial Services	-	255,274	-	-
	120,758,912	34,934,685	120,758,912	34,679,411
17. Deposits				
Member Deposits:				
- at call	481,425,003	433,983,416	481,425,003	433,983,416
- term	617,764,861	696,122,895	617,764,861	696,122,895
Withdrawable Shares	365,380	376,450	365,380	376,450
	1,099,555,244	1,130,482,761	1,099,555,244	1,130,482,761

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:

Industry Group				
State Government	378,352,356	353,034,203	378,352,356	353,034,203
Federal Government	113,699,709	104,310,644	113,699,709	104,310,644

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Geographic Areas				
Australian Capital Territory	59,109,706	55,875,840	59,109,706	55,875,840
Central Coast Region	54,191,525	49,120,330	54,191,525	49,120,330
Hunter Region	77,409,415	74,909,009	77,409,415	74,909,009
Illawarra Region	35,194,379	33,432,192	35,194,379	33,432,192
North Coast Region	72,381,403	71,827,767	72,381,403	71,827,767
Sydney Coast Region	31,123,270	28,247,296	31,123,270	28,247,296
Sydney Metropolitan	648,207,581	645,233,421	648,207,581	645,233,421
18. Creditors and Borrowings				
Creditors and Accruals	6,688,093	5,073,226	6,518,347	4,998,108
Interest Payable on Deposits	7,136,906	7,588,133	7,136,906	7,588,133
	13,824,999	12,661,359	13,655,253	12,586,241
19. Provisions				
Provision for:				
Employee Benefits	2,381,774	2,632,422	2,381,774	2,632,422
Leasehold Make Good	556,000	556,000	556,000	556,000
Other	260,706	29,767	30,706	29,767
	3,198,480	3,218,189	2,968,480	3,218,189
20. Taxation Liabilities				
Provisions for Income tax	1,046,748	853,243	881,837	816,915
Provision for Deferred Income Tax	845,971	816,452	845,971	816,452
Other	122,637	62,561	48,707	37,460
	2,015,356	1,732,256	1,776,515	1,670,827
Provision for Deferred Income Tax Comprises:				
- Prepayments;	49,024	57,535	49,024	57,535
- Tax allowances relating to Property, Plant & Equipment; and	723,841	678,338	723,841	678,338
- Tax allowances relating to Chelsea Wealth Management Pty Ltd.	73,106	73,106	73,106	73,106
- Transitional TOFA Adjustment	-	7,473	-	7,473
	845,971	816,452	845,971	816,452
21. Capital Reserve Account				
Balance - 1 July	353,440	340,280	353,440	340,280
Transfer from retained earnings on share redemptions	11,080	13,160	11,080	13,160
Balance - 30 June	364,520	353,440	364,520	353,440

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	
	2014	2013	2014	2013
	$	$	$	$
General Reserves For Credit Losses	3,557,306	3,400,306	3,557,306	3,400,306
Balance 1 July	3,400,306	3,270,306	3,400,306	3,270,306
Add: Increase/Decrease transferred from retained earnings	157,000	130,000	157,000	130,000
Balance 30 June	3,557,306	3,400,306	3,557,306	3,400,306

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 on the next page 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.

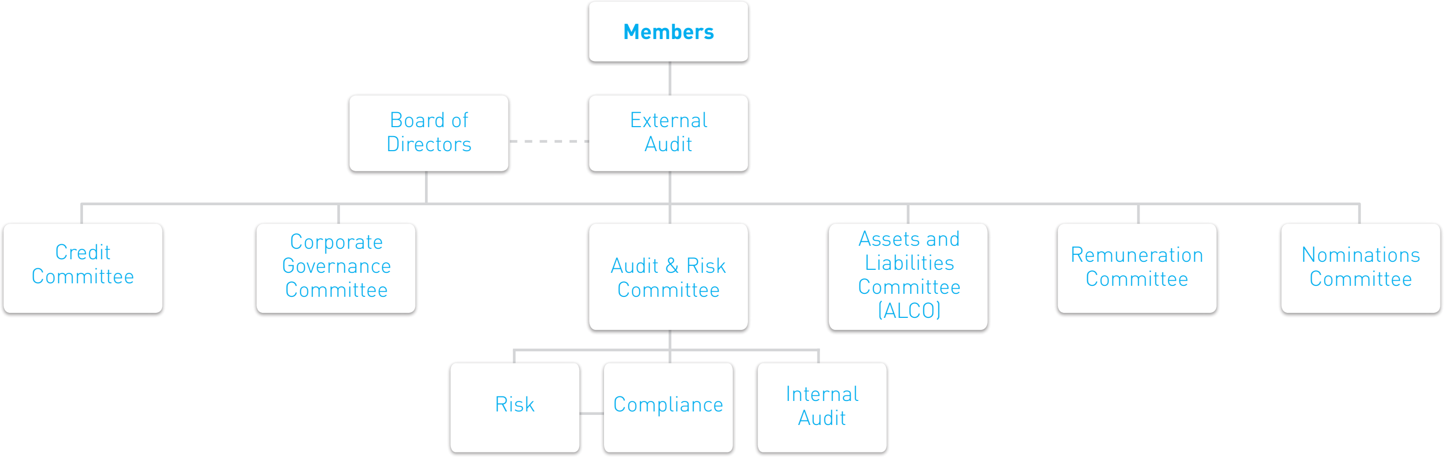
Credit Committee – Credit Risk: This Committee meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Credit Committee also determines the credit risk of loans in the banking 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 2014 the notional principle amounts of the interest rate swap contracts is $80,000,000. The fair value reflected in the Balance Sheet is ($594,909). The valuation of the derivative transactions is based on mid-market levels as of the close of business on 30 June 2014. 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 2014, the calculated market value of equity (EVE) is $152.8 million, with a sensitivity of $514,625 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 32 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	2014	2013
To total adjusted liabilities		
As at 30 June	13.76%	12.62%
Average for the year	12.67%	13.10%
Minimum during the year	11.54%	11.54%
To total Member deposits		
As at 30 June	17.86%	13.17%

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:

	2014			2013		
	Carrying Value	Off Balance Sheet	Maximum Exposure	Carrying Value	Off Balance Sheet	Maximum Exposure
Residential	793,600,411	47,711,239	841,311,650	763,299,184	41,295,399	804,594,583
Personal	109,471,883	627,443	110,099,326	111,707,781	493,224	112,201,005
Credit Cards	19,237,248	20,477,422	39,714,670	17,460,121	18,171,499	35,631,620
Overdrafts	10,846,782	22,532,914	33,379,696	11,568,859	22,937,729	34,506,588
Total to Natural Persons	933,156,324	91,349,018	1,024,505,342	904,035,945	82,897,851	986,933,796
Commercial	132,841,482	-	132,841,482	126,392,064	-	126,392,064
Total	1,065,997,806	91,349,018	1,157,346,824	1,030,428,009	82,897,851	1,113,325,860

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 31 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.

	2014
Tier 1	
Share capital	364,520
Capital reserve	1,430,212
General reserve	39,197,000
Cash flow hedge reserve	(594,909)
Retained earnings	110,454,924
Asset revaluations reserves on property	268,875
Less prescribed deductions	22,185,716
Net tier 1 capital	128,934,906
Tier 2	
Reserve for credit losses	3,557,306
Net Tier 2 capital	3,557,306
Total Capital	132,492,212

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:

2014	2013	2012	2011	2010
Basel III	Basel III	Basel II	Basel II	Basel II
18.72%	18.47%	19.23%	20.09%	19.45%

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 $ 6,090,518

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 through a combination of the various committees. The outputs of the individual committees 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. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

In relation to the operational risks, the major measurements for additional capital are recognised by the monitoring and stress testing for:

1. Asset impairment - the impact of economic and employment factors on the loan losses, and/or recovery of investments.
2. Property value decline - the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets.
3. Interest rate risk - measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
4. Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

24. Categories of Financial Instruments and Liabilities

The following information classifies the financial instruments into measurement classes	Note	Consolidated 2014 $	Consolidated 2013 $	Police Bank 2014 $	Police Bank 2013 $
Financial Assets - carried at amortised cost					
Cash	6	37,009,510	16,698,107	36,656,241	16,630,570
Receivables from Financial Institutions	7	106,000,000	118,000,000	106,000,000	118,000,000
Accrued Receivables	8	3,419,322	3,536,206	3,176,279	3,448,522
Investment Securities	9	164,802,765	145,444,243	164,802,765	145,444,243
Loans & Advances	10	1,063,104,602	1,027,693,431	1,063,104,602	1,027,693,431
Total Loans and Receivables		1,374,336,199	1,311,371,987	1,373,739,887	1,311,216,766
Available for Sale Investments carried at cost	12	7,355,645	8,183,418	11,442,209	8,705,812
Fair Value of Derivatives		-	-	-	-
Total Financial Assets		1,381,691,844	1,319,555,405	1,385,182,096	1,319,922,578
Financial Liabilities carried at amortised cost					
Short Term Borrowings	16	120,758,912	34,934,685	120,758,912	34,679,411
Deposits from Members	17	1,099,189,864	1,130,106,311	1,099,189,864	1,130,106,311
Withdrawable Shares	17	365,380	376,450	365,380	376,450
Creditors and Borrowings	18	13,824,999	12,661,359	13,655,253	12,586,241
Total Carried at Amortised Cost		1,234,139,155	1,178,078,805	1,233,969,409	1,177,748,413
Fair Value of Derivatives		594,909	1,145,980	594,909	1,145,980
Total Financial Liabilities		1,234,734,064	1,179,224,785	1,234,564,318	1,178,894,393

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.

2014

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
Assets						
Cash	37,009,510	37,009,510	-	-	-	37,009,510
Accrued Receivables	3,419,322	3,419,322	-	-	-	3,419,322
Receivables from Financial Institutions	106,000,000	75,685,519	26,411,572	5,000,000	-	107,097,091
Investment Securities	164,802,765	91,000,000	14,000,000	60,834,988	-	165,834,988
Loans and Advances	1,063,104,602	25,933,258	77,799,773	414,932,124	1,130,908,849	1,649,574,004
Available for Sale Investments	7,355,645	-	-	-	7,355,645	7,355,645
On Balance Sheet Financial Assets	1,381,691,844	233,047,609	118,211,345	480,767,112	1,138,264,494	1,970,290,560
Interest Rate Swaps	80,000,000	-	20,375,888	63,110,508	-	83,486,396
Total Financial Assets	1,461,691,844	233,047,609	138,587,233	543,877,620	1,138,264,494	2,053,776,956
Liabilities						
Creditors and Accruals	6,688,093	6,688,093	-	-	-	6,688,093
Creditors Interest Payable on Deposits	7,136,906	-	-	-	-	-
Deposits from Members - At Call	481,425,003	481,425,003	-	-	-	481,425,003
Deposits from Members - Fixed Term	617,764,861	390,979,921	158,965,169	86,693,583	150,581	636,789,254
Negotiable Certificate of Deposit	120,758,912	100,000,000	22,000,000	-	-	122,000,000
Withdrawable Shares	365,380	365,380	-	-	-	365,380
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	1,234,139,155	979,458,397	180,965,169	86,693,583	150,581	1,247,267,730
Undrawn Loan Commitments	91,349,018	91,349,018	-	-	-	91,349,018
Interest Rate Swaps	80,000,000	-	20,594,530	63,391,699	-	83,986,229
Total Financial Liabilities	1,405,488,173	1,070,807,415	201,559,699	150,085,282	150,581	1,422,602,977

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

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.

2014	Within 12 Months	After 12 Months	Total
Assets			
Cash	37,009,510	-	37,009,510
Accrued receivables	3,419,322	-	3,419,322
Receivables from Financial Institutions	101,000,000	5,000,000	106,000,000
Investment Securities	103,967,777	60,834,988	164,802,765
Loans and Advances	41,574,410	1,021,530,192	1,063,104,602
Available for Sale Investments	-	7,355,645	7,355,645
On Balance Sheet Financial Assets	286,971,019	1,094,720,825	1,381,691,844
Interest Rate Swaps	20,000,000	60,000,000	80,000,000
Total Financial Assets	306,971,019	1,154,720,825	1,461,691,844
Liabilities			
Creditors and Accruals	6,688,093	-	6,688,093
Creditors Interest Payable on deposits	7,136,906	-	7,136,906
Deposits from Members - At Call	481,425,003	-	481,425,003
Deposits from Members - Fixed Term	535,611,076	82,153,785	617,764,861
Negotiable Certificate of Deposit	120,758,912	-	120,758,912
Withdrawable Shares	365,380	-	365,380
Borrowings	-	-	-
On Balance Sheet Financial Liabilities	1,151,985,370	82,153,785	1,234,139,155
Undrawn Loan Commitments	91,349,018	-	91,349,018
Interest Rate Swaps	20,000,000	60,000,000	80,000,000
Total Financial Liabilities	1,263,334,388	142,153,785	1,405,488,173

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

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.

2014	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
Assets						
Cash	34,472,309	-	-	-	2,537,201	37,009,510
Accrued Receivables	-	-	-	-	3,419,322	3,419,322
Receivables from Financial Institutions	-	79,000,000	27,000,000	-	-	106,000,000
Investment Securities	-	151,059,982	13,742,783	-	-	164,802,765
Loans and Advances	798,951,407	14,419,443	52,351,800	197,381,952	-	1,063,104,602
Available for Sale Investments	-	-	-	-	7,355,645	7,355,645
On Balance Sheet Financial Assets	833,423,716	244,479,425	93,094,583	197,381,952	13,312,168	1,381,691,844
Interest Rate Swaps	-	80,000,000	-	-	-	80,000,000
Total Financial Assets	833,423,716	324,479,425	93,094,583	197,381,952	13,312,168	1,461,691,844
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	13,824,999	13,824,999
Deposits from Members - At Call	481,425,003	-	-	-	-	481,425,003
Deposits from Members - Fixed Term	-	368,351,471	167,259,605	82,153,785	-	617,764,861
Negotiable Certificate of Deposit	-	99,121,951	21,636,961	-	-	120,758,912
Withdrawable Shares	-	-	-	-	365,380	365,380
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	481,425,003	467,473,422	188,896,566	82,153,785	14,190,379	1,234,139,155
Undrawn Loan Commitments	91,349,018	-	-	-	-	91,349,018
Interest Rate Swaps	-	-	20,000,000	60,000,000	-	80,000,000
Total Financial Liabilities	572,774,021	467,473,422	208,896,566	142,153,785	14,190,379	1,405,488,173

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	9,906,352			34,679,411
Withdrawable Shares	-	-	-	-	376,450	376,450
Borrowings	-	-	255,274	-	-	255,274
On Balance Sheet Financial Liabilities	433,983,416	501,139,815	142,661,659	87,256,106	13,037,809	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	516,881,267	501,139,815	172,661,659	107,256,106	13,037,809	1,310,976,656

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)	
	2014 $	2013 $	2014 $	2013 $
Net Fair Value	267,796,071	258,998,236	1,065,512,990	1,031,501,098
Book Value	270,802,766	263,444,243	1,065,997,806	1,030,428,009
Variance	(3,006,695)	(4,446,007)	(484,816)	1,073,089

Liabilities

	Payable to other Financial Institutions		Member Deposits		Interest Rate Swaps	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Net Fair Value	121,364,221	34,722,005	1,098,860,237	1,131,275,279	79,405,091	48,854,020
Book Value	120,758,912	34,679,411	1,099,555,244	1,130,482,761	80,000,000	50,000,000
Variance	605,309	42,594	(695,007)	792,518	(594,909)	(1,145,980)

29. Derivative Financial Instruments

The Bank is exposed to the financial risk of changes in interest rates to the extent of the repricing profile of the bank's balance sheet. Derivative financial instruments are held for the purpose of managing existing or anticipated risk from the source.

The bank applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk.

	2014		2013	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest Rate Swaps designated as cash flow hedges	80,000,000	79,405,091	50,000,000	48,854,020

30. Expenditure Commitments

a. Future Capital Commitments

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Within 1 year	15,627,620	403,172	15,627,620	403,172
1 to 2 years	-	11,974,366	-	11,974,366
2 to 5 years	-	-	-	-
over 5 years	-	-	-	-
	15,627,620	12,377,538	15,627,620	12,377,538

b. Future Lease Rental Commitments

Future lease rental commitments are $2,310,185 (2013 $4,383,723). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	Consolidated		Police Bank	
	2014	2013	2014	2013
	$	$	$	$
Within 1 year	1,611,246	1,775,484	1,611,246	1,775,484
1 to 2 years	414,506	1,583,508	414,506	1,583,508
2 to 5 years	284,433	730,912	284,433	730,912
over 5 years	-	293,819	-	293,819
	2,310,185	4,383,723	2,310,185	4,383,723

31. Financial Commitments

a. Loan Commitments

Loans approved but not funded as at 30 June 2014 total $35,075,015 (2013 $28,288,474).

b. Undrawn Loan Facilities

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

	Consolidated		Police Bank	
	2014	2013	2014	2013
	$	$	$	$
Total value of facilities approved	102,940,564	101,049,406	102,940,564	101,049,406
Less: Amount outstanding at balance day	46,666,561	46,440,029	46,666,561	46,440,029
Net undrawn value	56,274,003	54,609,377	56,274,003	54,609,377

32. Standby Borrowing Facilities

The Bank has the following credit facilities with Cuscal:

Overdraft

	Consolidated		Police Bank	
	2014	2013	2014	2013
	$	$	$	$
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.

33. 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.

34. 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:

	2014			2013		
	Directors $	Other KMP $	Total $	Directors $	Other KMP $	Total $
(a) short term employee benefits	446,588	1,578,537	2,025,125	492,020	1,554,815	2,046,835
(b) Post-employment benefits - Superannuation Contributions	57,504	126,980	184,484	46,524	96,320	142,844
(c) Other long-term benefits - net increases in Long Service leave provision	-	(71,753)	(71,753)	-	23,710	23,710
(d) Termination benefits	197,021	759,022	956,043	160,480	-	160,480
(e) Share-based Payment	-	-	-	-	-	-
Total	701,113	2,392,786	3,093,899	699,024	1,674,845	2,373,869

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		Police Bank	
		2014 $	2013 $	2014 $	2013 $
(i)	The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to	1,146,116	1,228,817	1,146,116	1,228,817
(ii)	The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	107,000	104,000	107,000	104,000
	Less amounts drawn down and included in (i)	28,612	60,886	28,612	60,886
	Net balance available	78,388	43,114	78,388	43,114
(iii)	During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to:				
	Revolving Credit Facilities	197,418	152,666	197,418	152,666
	Personal Loans	-	-	-	-
	Term Loans	-	50,870	-	50,870
Total		197,418	203,536	197,418	203,536
(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.	45,804	45,769	45,804	45,769

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.

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:

Total value Term and Savings Deposits from KMP	1,378,098	2,974,955	1,378,098	2,974,955
Total Interest paid on Deposits to KMP	30,610	134,170	30,610	134,170

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.

35. Events Occurring after the Balance Date

There were no events that have occurred since 30 June 2014 that will have significant impact upon the Bank.

36. 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 2014, 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.

37. 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.

	2014 $	2013 $
Loans and Receivables	81,408,787	74,889,521
Fair Value of associated liabilities	3,767,287	4,595,061

	2014 $	2013 $
Off Balance Sheet Financial Commitments	8,326,685	7,304,914
Notes Issued	32,300,000	-

(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.

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.

	2014 $	2013 $
Integris securitisation trust (bulk items only)	1,926,300	3,125,317
Net income received from the continuing involvement cumulatively	21,980	29,217

38. Notes to Cash Flow Statement Liabilities

a. Reconciliation of Cash

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

	Consolidated		Police Bank	
	2014 $	2013 $	2014 $	2013 $
Cash as at balance date comprises:				
Cash on Hand	8,120,249	6,098,144	7,766,980	6,030,607
Deposits at Call	28,889,261	10,599,963	28,889,261	10,599,963
Less: Overdraft with Cuscal	-	-	-	-
	37,009,510	16,698,107	36,656,241	16,630,570

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	
	2014 $	2013 $	2014 $	2013 $
Operating Profit after Income Tax	10,257,959	10,071,129	9,978,346	10,036,712
Add (Deduct):				
Bad Debts Written Off	524,674	535,004	524,674	535,004
Depreciation Expense	1,132,601	1,154,530	1,081,037	1,141,905
Increase in Provision for Employee Entitlements	(250,648)	98,113	(250,648)	98,113
Accrued Expenses	2,100,967	(1,362,718)	1,069,003	(1,478,121)
Gain on Sale of Assets	(70,741)	(52,093)	(70,741)	(52,093)
Decrease (Increase) in Prepayments	(251,349)	22,600	(251,349)	22,600
Increase (Decrease) in Unearned Income	(8,923)	290,561	(8,923)	290,561
Amortised Loan Transaction Costs	25,468	49,518	25,468	49,518
Decrease (Increase) in Sundry Debtors	116,894	3,306,068	272,253	3,353,533
Increase (Decrease) in Deferred Taxes Payable	304,517	81,040	304,517	81,040
Provisions for Income Tax	253,581	397,223	76,169	350,586
Other Provisions	373,021	194,702	143,021	194,702
Dividend Accrued	(230,000)	-	-	-
Derivative Fair Value	-	-	-	-
Net Cash from Operating Activities	14,278,021	14,785,677	12,892,827	14,624,060

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 18.72% (2013 18.47%).

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 13.76% (2013 12.20%).

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