policebank
member owned banking

# 2017 ANNUAL REPORT

# OUR VISION

## To be the trusted bank of choice for the Police family and associated community groups

# OUR VALUES

### INTEGRITY

We do the right thing each and every time.

### SIMPLICITY

We aim to continually simplify & improve products, processes and services.

### ACCOUNTABILITY

We take ownership by delivering on what we commit to and always do our best.

### MEMBER FOCUSED

Our Members are at the heart of everything we do.

### ONE TEAM

We personally commit to the success and wellbeing of our colleagues.

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# **MISSION** STATEMENT

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

Directors and Colleagues 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 Group to become the best in Member service, range of relevant products and services, management practices and financial strength.

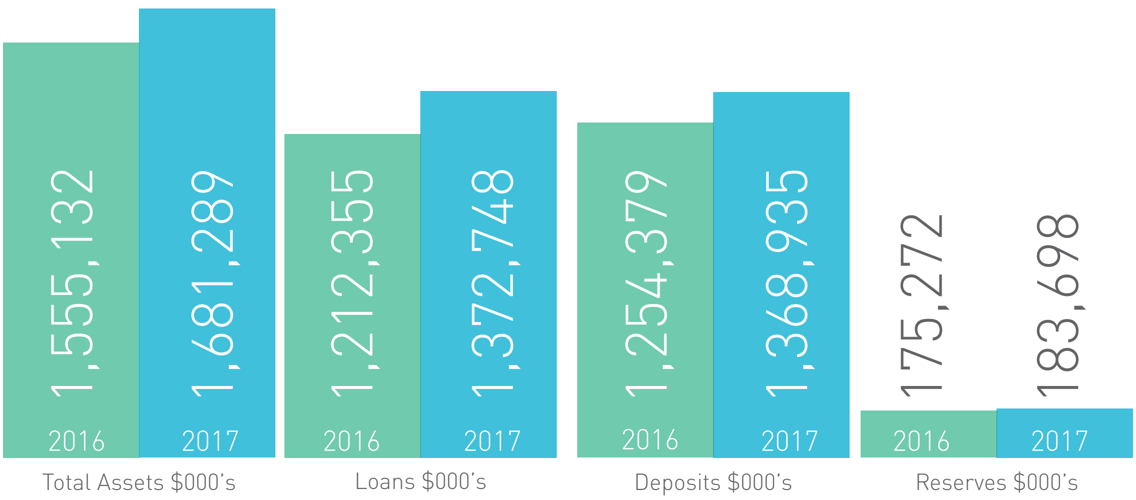
# **KEY** STATISTICS

Active Membership

| 2016 | 2017 |
|---|---|
| 64,419 | 65,757 |

Capital Adequacy

| 2016 | 2017 |
|---|---|
| 18.87% | 18.65% |



# CHAIR'S **WORD**

It is my pleasure to introduce the 2016/17 Police Bank Annual Report and Financial Statements. I can proudly report that Police Bank has once again recorded a strong operating performance in a year where we also focused on enhancing our business capabilities.

We congratulated Mr Lloyd Taylor, who retired from the Board at the AGM, after 28 years of service.

I would also like to thank my fellow Directors on our Board and welcome two of our newest Members. At our 2016 Annual General Meeting we appointed Mr Peter Remfrey, Secretary of the PANSW, as a Director.

In March 2017 we announced the appointment of Ms Clare Mazzetti as an independent, Board appointed Non-Executive Director to the Police Bank Board. These new Directors are making a positive impact on the Board and we look forward to a productive year for the Board.

As we begin this new financial year, there will be much to look forward to with your Board endorsing Management's investment program for a range of new initiatives which we are sure will deliver significant benefits for our Members.

On behalf of our Board and Management, I sincerely thank all Members for their ongoing support and loyalty.

# CEO'S **WORD**

It has been over a year now since I joined the Police Bank Group and I am very proud of the achievements we have accomplished over that time.

Importantly we've had a strong financial performance this year. The Bank's profit after providing for income tax amounted to $8,292,249 with a return on average assets of 0.51%. Assets increased during the year by 8.1% / $126.2M from $1,555.1M to $1,681.3M. The year's growth had no impact on the capital adequacy ratio which at 18.65% remains well above Police Bank's capital ratio of 10.5%.

The Police Bank Group continues to be a strong performing institution and these results were achieved in an environment where the ongoing effects of low interest rates and strong competition in the domestic banking industry created challenges to challenger businesses.

These results reflect the continuing support of the Membership for the products and services offered by the Bank and the ongoing attention given by the Bank to Member service, providing relevant products and the internal focus on controlling costs.

Earlier this year, we celebrated reaching $1.3 billion in loan assets. This was a great accomplishment for the Police Bank Group and evidence that we are the trusted bank of choice. Our Personal Loan balance also increased to over $100 Million in May 2017 and our growth rate as of 30 June 2017 was up 30% (in comparison to -18% in 2015/16).

This year we placed a great focus on developing our 2017-2021 Strategic Plan which included the development of the Police Bank Group Strategy House, that provides a clear outline of our strategy for our colleagues.

The top of the Strategy House details our vision: to be the trusted bank of choice for the Police family and associated community groups.

The Strategy House outlines our two key objectives that support our achieving our vision:

1. To grow Police Bank Group Membership by 10% by 2021
2. To be $2 billion in asset value by 2021

The Strategy House also details our core values - One Team, Integrity, Accountability, Member Focused, and Simplicity. These core values define a productive and effective culture for our organisation now and for the future.

The Strategy House has been integral to uniting direction for our team to work towards.

In the financial year we were able to continue to progress our investment program. We continued to enhance our Risk capabilities through our Risk Assurance Management Program (RAMP) and pleasingly we saw the enhanced risk management competencies deliver many benefits for the business and Members.

We are proud of our progress in delivering digital capability. We launched some important digital initiatives which were paramount to keeping us relevant in this competitive market. We were one of the first financial institutions in our market to have implemented all three of the major digital payment functionality on smartphones with the provision of Android Pay, Apple Pay and then Samsung Pay functionality for our Members. Delivering technological capabilities for our Members remains a key

element in achieving Member growth, particularly in the younger demographics and as such will continue to be on our agenda in the future.

This coming year we will be dedicating our focus to creating better experiences for our Members, in particular we will be investing in the following key areas:

- Technology to improve Member experiences
- Improving and enhancing our product range and service functionality
- Growing our Membership base and
- Driving growth in our loan book

In order to be able to achieve our goals, we must have the right people and resources. For this reason, we have dedicated a lot of effort to focusing on our people. In December 2016, we completed our first colleague engagement survey within the Police Bank Group. We received an 89% participation rate which gave the management team confidence that the report provided an objective understanding of not just where we are performing well but also how we can improve as an organisation. The findings were pleasing, particularly as it provided a number of actionable insights. One of the key focus areas identified was the need to enhance our Performance Management framework and we have already addressed this with a new performance framework for our teams which will be implemented for FY18.

We also focused on enhancing our colleague diversity across our business this year. It is important in any business to have diversity, ideally to match the profile of our Membership. During my time at Police Bank I will endeavour to continue to create a more diverse culture in our organisation.

As always, our Members are a key priority. At the end of the financial year we completed a membership audit to obtain an accurate understanding of our active membership numbers.

We closed a number of dormant memberships and inactive accounts which has provided us with a new baseline for membership position. Based on this new baseline number, we grew membership by 2% in FY17 and we will continue to focus on growing our membership particularly with the new recruits at the Goulburn Academy, AFP and Border Force.

I'm pleased by the continued evolution of Police Bank into an organisation with a strong vision, clear values and Member focus at our core. I am looking forward to helping our organisation continue to strengthen our future within the Police and Department of Immigration and Border Protection communities.

# focus on MEMBERS

As a mutual, our main focus has always been on our Members and helping them achieve their financial goals. In the past 12 months we have implemented a number of initiatives to improve the products and services so we can better serve our Members.

One of our first initiatives for the financial year was the launch of our Pricing Committee. This committee was introduced to regularly review our pricing to ensure we are balancing our Member needs with those of the Bank. Pleasingly, the Pricing Committee has allowed us to implement numerous offers to our current and prospective Members across the product range to strengthen our relationship with our current and attract new Members.

> "The young man who helped me went above and beyond the simple call of duty. He solved my problem and put my mind at rest. I would give him a commendation if it were within my power. Bless him." – Pamela, Member

We are proud that our focus on service and products has been recognised with a number of industry awards in FY17.

## 2017

- Mozo Expert's Choice – Regular Saver – Bonus Saver Account
- Mozo Expert's Choice – Pocket Money Regular Saver – Dynamo Children's Savings Account
- Money Magazine – Cheapest Personal Loan

## 2016

- Canstar – Outstanding Value – Low Rate Credit Card
- Mozo Expert's Choice – Green Personal Loan – Green Loan
- Mozo Expert's Choice – Excellent Credit Personal Loan
- Mozo Expert's Choice – Unsecured Personal Loan – Personal Loan
- Mozo Expert's Choice – Used Car Loan
- Mozo Expert's Choice – Best Value Transfer Credit Card
- QBE Annual MemberCare Awards - CCI Financial Institution of the Year (3rd time in a row)

Our Members' trust and security with us is imperative and with increasing risk of fraud across the industry, we wanted to provide our Members with more securely monitored banking. In October 2016 we introduced Vigil, our 24/7 card fraud vigilance service, so we can respond to fraud, regardless of what time of day it has occurred showing our commitment to continuously improving our Member experience.

> "I appreciate that the Police Bank contacts me every time a large amount is taken from my account. It has always been me but good to know they are watching" – Member

## Improving Technology

We are committed to improving our digital experience for our Members. This financial year we implemented all three of the major digital wallets for our Members – Apple Pay, Android Pay and Samsung Pay. We


are proud to say that Police Bank was one of the first few financial institutions in Australia which can offer these services to our Members. As of June 2017 we had nearly 10% of our Members using the Pays and this number continues to grow.

Our Mobile Banking App which launched in October 2015 continued

| Mobile Pays | |
|---|---|
| Total Cards Added | 5860 |
| Daily Average Transactions | 447 |
| Daily Average Transactions ($) | $12,288 |

to grow and there were 15,000 active users by the end of June 2017.

We are committed to continually improving our Mobile Banking App with new and better features to improve Member experience. In FY17 we had a number of new features, including:

- **Simple Balance**
  The Member can simply swipe to see the Available Balance of accounts without signing in.
- **ATM/Service Centre Locator**
  Find the nearest ATM without logging into the App.
- **Android Biometrics**
  Login with a Fingerprint on Android (4.4+).

"Handy and easy to use. I use it all the time. Thanks"
– Robert, Member

- **Improved Interface**
  Less taps to get to what you need to do.
- **Card Security**
  The ability to lock / unlock a card whenever is needed.
- **App Tour**
  To get Members started on the right track when they register.

## Social Engagement

This financial year we had a strong focus on developing our social media presence to engage and communicate with our Members including real-time. We have been successfully utilising Facebook and Twitter to communicate with our Members with great effect, and more recently we have been using Linkedin to promote our corporate communications.

In February this year, we were excited to launch our Instagram channel to further our reach with our Members. We are proud to announce that we have doubled our social media engagement since the previous financial year and we will continue to extend our social reach and connect our Members and our related community groups.

## Engagement stats

The highlight of our Social Media activity this year was the #WeStandWithPolice social media campaign. This has been our most successful social media campaign to date, with a total reach of 87,983 and an average engagement of 10.2% over 3 posts.

## Member Satisfaction

We have recently completed a Member satisfaction survey and we are pleased to announce that we once again received a very positive result. Over 89% of Police Bank Members and 85% of Customs Bank Members rated their overall satisfaction with us as 70% or better. From the survey we also received a Net Promoter Score (NPS*) of 37.7 for Police Bank and 19.3 for Customs Bank. These are outstanding results for which the Bank can be rightly proud.

*NPS is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand. To provide a comparison, the Big Four Banks have negative NPS scores (as stated on https://npsbenchmarks.com/)

# focus on
# CORPORATE SOCIAL RESPONSIBILITY

Beyond our focus on helping our Members reach their financial goals, we are also driven by a responsibility to support our community families, both Police and the Department of Immigration and Border Protection (DIBP). In the last financial year we have invested over $300,000 into programs and activities which benefit the Police and DIBP families and associated community groups.

Over the last financial year we have supported and participated in a number of Police related events and initiatives, including the Police Games, Gay and Lesbian Mardi Gras Parade, PEP Awards, Biennial EDO Conference, Wear it Purple Day, Police Officer of the Year awards, Law Enforcement Torch Run for the Special Olympics and White Ribbon Day.

We also have a strong relationship with Police related charities. For over 10 years, we have been proud to be a major supporter of NSW Police Legacy. Over the last 12 months, we have not only supported their major events, such as their legatee camps (pictured on the next page), family days, Christmas luncheon and Blue Ribbon Dinner, we have also supported events aimed at raising funds for Police Legacy, including the "Remembrance Bike Ride" and "Wall to Wall Ride for Remembrance".

We also provide support to AFP Legacy through their major events such as the Charity Ball and Golf Day.

We have also run events and campaigns to raise awareness and funds for NSW Police Legacy & AFP Legacy. In May 2017 we held our Annual Police Bank Charity Golf Day at Moore Park. We had over 100 players join us on the greens and ended the day with a $10,000 donation to each Police Legacy.

In February 2017 we ran a social media campaign to support NSW Police Legacy and AFP Legacy. The campaign utilised the hashtag #Lift4PoliceLegacy and asked our Members and community to post a photo of a 'lifting' pose to our Facebook and Instagram pages. The campaign was a great success with 333 posts to our pages with photos ranging from lifting babies, each other, cars and everything in between. Not only did we raise awareness for the organisations, but we also donated $5,000 to each Police Legacy to help Police Officers in times of need.

This financial year, we also have expanded our focus on other organisations in the Police community. In May this year we donated $25,000 to the NSW Police Citizen Youth Club to purchase 10 defibrillator units. This much needed equipment has been distributed to various PCYC locations throughout NSW to enhance the safety of the clubs and potentially save lives. We look forward to further growing our relationship with the PCYC community this coming year.

We've not only supported organisations and events, but we have also supported individuals in our community when they need it most. Over the last 12 months we have donated to Police Officers and their families, including:

- To a former Senior Constable who was injured in a car crash in Queensland in March 2017.

- To a Senior Constable who's home had been severely affected by floods in early 2017.
- To a Border Force Officer who underwent cancer treatment in July 2016 and
- To an AFP Officer who was injured in New Zealand in May 2017 and a separate amount for his family.

We've also helped Police Officers achieve their dreams. Last year we sponsored one of our Members to be the first female motorcyclists at a national level to compete in the 2016 Formula Extreme Australasian Superbike Championships.

In addition, our colleagues take part in a number of charity events throughout the year, this includes raising funds for Jeans 4 Jeans Day, Cancer Council, Pink Ribbon Day. For Christmas 2016 we also participated in the Smith Family Gift Appeal. All together we donated 165 gifts and $230 in cash donations, plus $2,500 from the Bank.

# focus on **FUTURE**

Going forward into the new financial year, we will through our investment program continue to focus on strengthening our position as the trusted bank of choice for the Police and DIBP families and associated groups.

On our agenda for this financial year is full of initiatives and projects which will enable us to better serve our Members.

We will be focusing on simplifying and maturing our products, processes and services we offer to provide better Member experiences. However we will maintain a strong focus on our risk culture to ensure our improvements will not come at a risk to our credit quality.

We will also continue our investment in supporting and building our relationship in our associated community groups. FY18 will see Police Bank form a stronger partnership with the Police Citizens Youth Club (PCYC) and opening our doors to their staff and members.

As more current and prospective Members migrate to the use of mobile devices, we will continue to invest in the development of our digital services. This is particularly important for us to focus on to remain competitive in the millennial demographic. In addition to this, we will also have an ongoing strategy focused on enhancing our technology to create an easier everyday banking experience for our Members.

A large focus for the next financial year will be the launch of the New Payments Platform. This will allow Members to be able to send and receive payments between different Financial Institutions in near real time, a long awaited capability in the domestic market.

We will be relaunching our Customs Bank brand to align with the restructure to the Department of Immigration and Border Protection.

Financial health of our Members is why we are here. We will continue to focus on helping our Members achieve their financial goals including utilising our financial planning partnership.

We cannot achieve any of this without our people. Therefore we will be increasing our focus on our people by providing more training, development programs and a new performance framework with ongoing reviews to better engage with our people.

In conclusion, we are looking forward to making the most of opportunities and strengthen our position as the trusted Bank of choice for the Police Family and associated community groups.

# DIRECTORS' REPORT

Your Directors submit the Financial Accounts of the Bank for the financial year ended 30 June 2017.

## Directors' and Officers' Disclosures

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

David Charles Walton (Chair)
Colin James Dyson (Deputy Chair)
Raff Del Vecchio
Geoffrey Richard Green
Gregory John McKenna
Robert John Redfern
Lloyd William Taylor (Retired 24th November 2016)
Scott David Weber

Peter James Remfrey (Appointed 1st December 2016)
Clare Mariesa Mazzetti (Appointed 27th March 2017)
Tony Taylor (CEO)
Coco Liu (Interim CFO from 20th Jun 2016 to 16th Oct 2016)
Craig Townsend (CFO, appointed 17th Oct 2016)
Tim Moseley (Company Secretary, resigned 1st Jul 2016)
Jennifer Miller (Company Secretary, appointed 4th Jul 2016)

| | Board | | Audit Committee | | Risk Committee | | Governance Committee | |
|---|---|---|---|---|---|---|---|---|
| | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended |
| Walton | 11 | 11 | - | - | - | - | 4 | 4 |
| Dyson | 10 | 11 | 4 | 4 | 4 | 4 | - | - |
| Del Vecchio | 11 | 11 | 3 | 4 | - | - | 4 | 4 |
| Green | 10 | 11 | 4 | 4 | - | - | 4 | 4 |
| Mazzetti | 4 | 4 | 1 | 1 | 1 | 1 | - | - |
| McKenna | 11 | 11 | 4 | 4 | 4 | 4 | - | - |
| Redfern | 11 | 11 | 4 | 4 | 3 | 4 | - | - |
| Remfrey | 7 | 7 | - | - | 3 | 3 | - | - |
| Taylor | 5 | 5 | - | - | 0 | 1 | 0 | 1 |
| Weber | 10 | 11 | - | - | - | - | 4 | 4 |

Note: Directors Dyson, Green & Weber were granted a leave of absence for one Board meeting each.
In addition to Board meetings, Directors also attended a Strategic Planning Session between 19-21 May 2017.

## Directors' Benefits

Director Gregory John McKenna was a part-time Treasury consultant for the Bank until October 2016, and received a total of $42.7k plus 10% GST consulting fee FY17.

No other 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 $8,292,249 with a return on average assets of 0.51%. Assets increased during the year by $126.2M from $1,555.1M to $1,681.3M. The year's growth had no impact on the capital adequacy ratio which is 18.65%. At 18.65% the capital adequacy ratio remains well above the statutory minimum of 8%. The Bank loan portfolio grew by 13.2% 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 2018 will be similar to those achieved in 2017.

## Dividends

Dividends paid or declared by the Consolidated Group since the end of the previous financial year was $821,000, 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.

## Non-Audit Services

Non audit services were provided by Grant Thornton (auditor of the Bank) amounting to $38,571.

## 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:

## 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.

## 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 2018 are as follows:

The Board of Directors anticipate that the profit will be in the vicinity of 0.50% - 0.80% return on average assets.

Planned capital expenditure on infrastructure amounts to $1.0M for the year ending 30 June 2018. This covers general equipment, core banking upgrades and computer hardware upgrades.

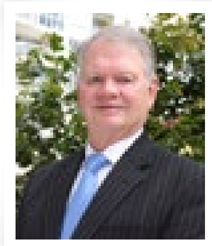
No other matter, circumstances or likely developments in the operation has arisen since the end of the financial year that has significantly affected or may significantly affect:

(i) The operations of the Bank;
(ii) The results of those operations; or
(iii) The state of affairs of the Bank

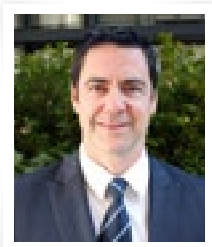
in the financial years subsequent to this financial year.

# INFORMATION ON DIRECTORS AND CEO

| | |
|---|---|
| **Mr D C Walton** | **Chair** |
| | Corporate Governance Committee (Chair) |
| Qualifications | Corporate Governance Program, Harvard Business School |
| | Company Directors Course Diploma, Australian Institute of Company Directors |
| | Master of Management & Leadership |
| | Bachelor of Business |
| | Fellow, Australian Institute of Company Directors |
| Experience | Auditor, Retired Police Association |
| | Auditor, NSW Police RSL Sub-Branch |
| | Regulator, NSW Tow Truck Industry |
| | Committee of Management, Federation of Police Mutuals |
| | Vice President, Special Olympics Sydney North |
| | Vice President, Queenscliff Surf Life Saving Club |
| | Former Manager of International Academic Programs, Australian Institute of Police Management |
| | Former Executive Audit Manager, Ausgrid |
| | Former Detective Inspector of Police, NSW Police Force |
| | Former casual Academic, Charles Sturt University and University of Western Sydney |
| | Board Member since 2001 |
| Directorships | Chelsea Wealth Management Pty Limited |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

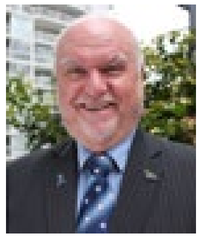


| | |
|---|---|
| **Mr C J Dyson** | **Deputy Chair** |
| | Risk Committee (Chair) |
| | Audit Committee |
| | Corporate Governance Committee |
| Qualifications | Advanced Certificate, Personnel Management (TAFE 1991) |
| | NSWPF Command Development Program (1997) |
| | Graduate Certificate, Management (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 |
| | Board Member since November 2012 |
| 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 |
| | Audit Committee |
| 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 |
| Experience | Chief Executive Officer, Migration Institute of Australia |
| | Former Head of Administrative Services, Police Association 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 Committee
| Corporate Governance Committee
Qualifications | LL.B (Hons)
| Barrister of the Supreme Court of NSW
| Barrister of the High Court of Australia
| Fellow, Australasian Mutuals Institute
| Member, Australian Institute of Company Directors
Experience | Former Secretary, Legal Division & Senior Vice President, Police Association of NSW
| Life Member, Police Association of NSW
| Life Member, NSW Police Legacy
| Member, Retired Police Association of NSW
| Member, Vietnam Veterans Federation
| Board Member since 1989
Awards | NSW Police Medal – 20 year clasp
| National Service Medal
| Australian Defence Medal
| National Medal
| Australian Police Medal
| Vietnam Medal
| Australian Active Service Medal
Interest in Shares | $10.00 in ordinary shares in the Police Bank

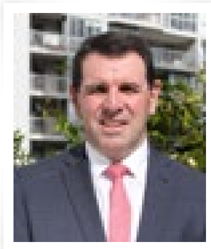


| Ms C Mazzetti | Director |
|---|---|
| | Audit Committee |
| | Risk Committee |
| Qualifications | MBA, Management 2011 University of Queensland |
| | Bachelor of Economics, Economics (BEc) 2000 University of Queensland |
| | Member, FINSIA |
| | Member, Australian Institute of Company Directors |
| | Graduate Diploma, Governance & Risk Management (GAICD) 2005 Australian Institute of Company Directors |
| Experience | Former Member, Australian Shareholders Association |
| | Former Member, Australian Medical Association Foundation (QLD) |
| | Former Member, Agriculture Management Company |
| | Independent Consultant, Management Consulting and Project Management |
| | AMP, Head of Business Development and M&A Strategy |
| | Private Wealth Manager, Macquarie Bank |
| | Board Member since March 2017 |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

| Mr G J McKenna | Director |
|---|---|
| | Audit Committee |
| | Risk Committee |
| Qualifications | Bachelor of Business (Banking & Finance) 1996 Monash University |
| | Master of Applied Finance 2002 Macquarie University |
| | Company Directors Course Diploma, Australian Institute of Company Directors |
| | Member Australian Institute of Company Directors |
| Experience | Director Greg McKenna Pty Ltd (2005 – present) |
| | 29 years experience in banking and finance |
| | Board Member since July 2012 |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

# INFORMATION ON DIRECTORS AND CEO

| | |
|---|---|
| Mr R J Redfern | Director |
| | Audit Committee (Chair) |
| | Risk Committee |
| 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 P Remfrey | Director |
| | Risk Committee |
| Qualifications | Bachelor of Economics – University of Sydney |
| | Trade Union Program – Harvard University |
| | Union Management as a Profession – Trade Union Training Authority |
| | Industrial Relations Residential School – Australian Graduate School of Management |
| | Accredited Mediator – Australian Resolution Institute |
| | Member – Australian Institute of Company Directors |
| Experience | Secretary Police Association of NSW (since 1994) |
| | Branch Administrator NSW Police Branch Police Federation of Australia (since 1998) |
| | Trustee Unions NSW |
| | Executive Member Unions NSW |
| | Finance and Governance Committee Unions NSW |
| | Board Member Since December 2016 |
| Awards | Life Member Police Association of NSW |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

| | |
|---|---|
| Mr S D Weber | Director |
| | Corporate Governance Committee |
| Qualifications | Company Directors Course |
| | Australian Institute of Company Directors |
| | Bachelor of Policing |
| Experience | President - Police Association of NSW (current) |
| | Vice President - Police Association of NSW |
| | Vice President - Police Federation of Australia (current) |
| | Treasurer - Police Federation of Australia |
| | Executive Member - Police Association of NSW |
| | Executive Member - Police Federation of Australia |
| | NSW Police Force (Sergeant of Police) |
| | Former Member - Police Superannuation Advisory Board |
| | Board Member since February 2015 |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

**Mr L W Taylor** — **Director (Retired 24th November 2016)**

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

**Mr T Taylor** — **Chief Executive Officer**

| | |
|---|---|
| Qualifications | Fellow of CPA Australia<br>Fellow Member of Finsia<br>Australian Institute of Company Directors |
| Experience | CFO Credit Union Australia (CUA)<br>Director CUA Health<br>Director Credicorp Finance<br>CFO Retail, Bankwest<br>CFO Bank South Pacific |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

**Mrs J Miller** — **Company Secretary**

| | |
|---|---|
| Qualifications | Bachelor of Laws<br>Bachelor of Business Management |
| Interest in Shares | $10.00 in ordinary shares in the Police Bank |

## EXECUTIVE COMMITTEE

Police Bank put focus on it's people and resources in FY17, and our Executive Team is testament to that. Having grown in both size and experience, the team now features a balanced group of colleagues diverse in thought, with experience from a wide range corporate backgrounds.

With this strong foundation, the new Executive Team placed great focus on a developing a sound strategy to lead Police Bank into an exciting and prosporous future. This has seen Police Bank establish a new, clear vision, strong values and key objectives to carry us forward into FY18.

# DIRECTORS' DECLARATION

## Acknowledgments

In concluding this Report, the Board wishes to acknowledge its appreciation of Tony Taylor, 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<br>Chair<br>28th September 2017 | Colin Dyson<br>Deputy Chair |

## 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 2017 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 and its controlled entities 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, as stated in Note 1.

Signed in accordance with a resolution of the directors.

| | |
|---|---|
| David C Walton<br>Chair<br>28th September 2017 | Colin Dyson<br>Deputy Chair |

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Sydney NSW 2000

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Sydney NSW 1230

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**F** +61 2 9299 4445
**E** info.nsw@au.gt.com
**W** www.grantthornton.com.au

# AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF POLICE BANK LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Police Bank Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

Claire Gilmartin
Partner - Audit & Assurance

Sydney, 28 September 2017

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Sydney NSW 2000

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# Independent Auditor's Report
# To the members of Police Bank Limited

## Auditor's Opinion

We have audited the financial report of Police Bank Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of the Company and 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.

In our opinion, the accompanying financial report of Police Bank Limited is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

GrantThornton

### Information other than the Financial Report and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors 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.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_files/ar3.pdf http://www.auasb.gov.au/auditors_files/ar7.pdf.
This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Claire Gilmartin

Claire Gilmartin
Partner - Audit & Assurance

Sydney, 28 September 2017

# CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## For the Year Ended 30 June 2017

| | | Consolidated | | Police Bank | |
|---|---|---|---|---|---|
| | Note | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Interest Revenue | 2a | 68,991,317 | 71,845,873 | 68,991,317 | 71,845,539 |
| Borrowing Costs | 2b | (28,271,975) | (32,653,264) | (28,271,975) | (32,653,264) |
| Net Interest Revenue | | 40,719,342 | 39,192,609 | 40,719,342 | 39,192,275 |
| Other revenue from ordinary activities | 3 | 11,617,317 | 11,012,182 | 9,300,120 | 8,884,902 |
| Impairment losses on Loan Receivables from Members | 4a | (510,581) | (328,207) | (510,581) | (328,207) |
| Fees and Commission | | (6,771,250) | (6,710,110) | (6,771,250) | (6,710,110) |
| General Administration | | | | | |
| - Personnel expenses | | (18,150,872) | (18,590,437) | (16,810,483) | (17,389,546) |
| - Depreciation and amortisation | 4b | (2,476,933) | (2,399,713) | (2,042,076) | (1,898,044) |
| - Lease expenses | | (879,022) | (780,692) | (879,022) | (780,692) |
| - Other administration expenses | | (6,205,367) | (4,370,868) | (5,773,856) | (4,168,310) |
| Other operating expenses | | (5,220,384) | (4,522,441) | (5,220,384) | (4,522,441) |
| Operating Profit before Income Tax | | 12,122,250 | 12,502,323 | 12,011,810 | 12,279,827 |
| Income Tax Expense | 5 | (3,830,001) | (3,672,385) | (3,488,412) | (3,313,076) |
| **Operating Profit after Income Tax** | | **8,292,249** | **8,829,938** | **8,523,398** | **8,966,751** |
| Other comprehensive income that will be eventually recognised in income | | | | | |
| - Changes in the fair value of cash flow hedges | | 160,791 | 504,194 | 160,791 | 504,194 |
| **Total comprehensive income** | | **8,453,040** | **9,334,132** | **8,684,189** | **9,470,945** |
| Attributable to: | | | | | |
| Non Controlling Interests | | 161,610 | 174,451 | - | - |
| Members of the parent entity | | 8,291,430 | 9,159,681 | 8,684,189 | 9,470,945 |
| **Total Comprehensive income** | | **8,453,040** | **9,334,132** | **8,684,189** | **9,470,945** |

These accounts should be read in conjunction with the accompanying notes.

## Police Bank

| | Capital Account | Retained Profits | Reserve for Credit Losses | Asset Revaluation Reserve | Other Reserves | Total |
|---|---|---|---|---|---|---|
| **Balance 1 July 2015** | **375,150** | **122,410,804** | **2,159,248** | **268,875** | **39,682,020** | **164,896,097** |
| Operating Profit for the year | - | 8,966,751 | - | - | - | 8,966,751 |
| Transfers to and from Reserves | | | | | | |
| - General Reserves | - | (1,200,000) | - | - | 1,200,000 | - |
| - Capital Account | 36,910 | (36,910) | - | - | - | - |
| - Reserves for Credit Losses | - | (140,447) | 140,447 | - | - | - |
| Cash Flow Hedge Reserve | - | - | - | - | 504,194 | 504,194 |
| **Balance 30 June 2016** | **412,060** | **130,000,198** | **2,299,695** | **268,875** | **41,386,214** | **174,367,042** |
| **Balance 1 July 2016** | **412,060** | **130,000,198** | **2,299,695** | **268,875** | **41,386,214** | **174,367,042** |
| Operating Profit for the year | - | 8,523,398 | - | - | - | 8,523,398 |
| Transfers to and from Reserves | | | | | | |
| - General Reserves | - | (1,200,000) | - | - | 1,200,000 | - |
| - Capital Account | 20,700 | (20,700) | - | - | - | - |
| - Reserves for Credit Losses | - | (440,905) | 440,905 | - | - | - |
| Cash Flow Hedge Reserve | - | - | - | - | 160,791 | 160,791 |
| **Balance 30 June 2017** | **432,760** | **136,861,991** | **2,740,600** | **268,875** | **42,747,005** | **183,051,231** |

## Consolidated

| | Capital Account | Retained Profits | Reserve for Credit Losses | Asset Revaluation Reserve | Other Reserves | Total |
|---|---|---|---|---|---|---|
| **Balance 1 July 2015** | **375,150** | **122,523,509** | **2,159,248** | **268,875** | **40,790,416** | **166,117,198** |
| Operating Profit for the year | - | 8,829,938 | - | - | - | 8,829,938 |
| Profit attributable to non-controlling Interest | - | (174,451) | - | - | 174,451 | - |
| Transfers to and from Reserves | | | | | | |
| - General Reserves | - | (1,200,000) | - | - | 1,200,000 | - |
| - Capital Account | 36,910 | (36,910) | - | - | - | - |
| - Reserves for Credit Losses | - | (140,447) | 140,447 | - | - | - |
| - Dividends Paid | - | - | - | - | (179,200) | (179,200) |
| Cash Flow Hedge Reserve | - | - | - | - | 504,194 | 504,194 |
| **Balance 30 June 2016** | **412,060** | **129,801,639** | **2,299,695** | **268,875** | **42,489,861** | **175,272,130** |
| **Balance 1 July 2016** | **412,060** | **129,801,639** | **2,299,695** | **268,875** | **42,489,861** | **175,272,130** |
| Operating Profit for the year | - | 8,292,249 | - | - | - | 8,292,249 |
| Capital Contribution by non-controlling Interest | - | - | - | - | 137,600 | 137,600 |
| Profit attributable to non-controlling Interest | - | (161,610) | - | - | 161,610 | - |
| Transfers to and from Reserves | | | | | | |
| - General Reserves | - | (1,200,000) | - | - | 1,200,000 | - |
| - Capital Account | 20,700 | (20,700) | - | - | - | - |
| - Reserves for Credit Losses | - | (440,905) | 440,905 | - | - | - |
| - Dividends Paid | - | - | - | - | (164,200) | (164,200) |
| Cash Flow Hedge Reserve | - | - | - | - | 160,791 | 160,791 |
| **Balance 30 June 2017** | **432,760** | **136,270,673** | **2,740,600** | **268,875** | **43,985,662** | **183,698,570** |

These accounts should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## As at 30 June 2017

| | | Consolidated | | Police Bank | |
|---|---|---|---|---|---|
| | | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| **Assets** | Note | | | | |
| Cash and Liquid Assets | 6 | 45,469,728 | 41,163,039 | 45,010,828 | 40,768,835 |
| Receivables due from other Financial Institutions | 7 | 24,000,000 | 50,000,000 | 24,000,000 | 50,000,000 |
| Accrued Receivables | 8 | 4,145,545 | 3,976,606 | 3,860,787 | 3,720,063 |
| Investment Securities | 9 | 196,724,713 | 210,449,812 | 196,724,713 | 210,449,812 |
| Loans and Advances | 10 & 11 | 1,370,277,171 | 1,210,355,887 | 1,370,277,171 | 1,210,355,887 |
| Available for Sale Investments | 12(a) | 11,332,671 | 8,794,855 | 11,332,671 | 8,794,855 |
| Investment in Subsidiary | 12(b) | - | - | 5,274,117 | 4,723,717 |
| Property Plant and Equipment | 13 | 22,191,091 | 23,666,014 | 22,110,024 | 23,554,370 |
| Intangible Assets | 14 | 5,674,147 | 5,337,945 | 121,137 | 90,535 |
| Taxation Assets | 15 | 1,474,717 | 1,388,122 | 1,474,717 | 1,388,122 |
| Tax Receivable | 20 | - | - | - | 191,087 |
| **Total Assets** | | 1,681,289,783 | 1,555,132,280 | 1,680,186,165 | 1,554,037,283 |
| **Liabilities** | | | | | |
| Payables to other Financial Institutions | 16 | 108,160,357 | 106,357,159 | 108,160,357 | 106,357,159 |
| Deposits and Borrowings | 17 | 1,368,935,288 | 1,254,379,384 | 1,368,935,288 | 1,254,379,384 |
| Creditors and other Liabilities | 18 | 16,999,729 | 16,315,747 | 16,942,379 | 16,170,202 |
| Provisions | 19 | 2,841,401 | 2,552,710 | 2,670,418 | 2,552,710 |
| Taxation Liabilities | 20 | 604,443 | 44,364 | 376,497 | - |
| Derivative Fair Value | | 49,995 | 210,786 | 49,995 | 210,786 |
| **Total Liabilities** | | 1,497,591,213 | 1,379,860,150 | 1,497,134,934 | 1,379,670,241 |
| **Net Assets** | | 183,698,570 | 175,272,130 | 183,051,231 | 174,367,042 |
| **Member Funds** | | | | | |
| Capital Account | 21 | 432,760 | 412,060 | 432,760 | 412,060 |
| Reserves | | 45,806,467 | 44,165,570 | 45,806,475 | 44,165,570 |
| Retained Profits | | 136,270,673 | 129,801,639 | 136,861,991 | 130,000,198 |
| Cash Flow Hedge Reserve | | (49,995) | (210,786) | (49,995) | (210,786) |
| Non-Controlling Interest | | 1,238,665 | 1,103,647 | - | - |
| **Total Member Funds** | | 183,698,570 | 175,272,130 | 183,051,231 | 174,367,042 |

These accounts should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For Year Ended 30 June 2017

| | | Consolidated | | Police Bank | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| Cash Flow From Operating Activities | Note | $ | $ | $ | $ |
| Interest Received - Loans | | 61,336,902 | 59,761,159 | 61,336,902 | 59,761,159 |
| Other Income | | 19,314,436 | 23,069,699 | 16,340,439 | 20,225,285 |
| Dividends Received | | 532,544 | 491,516 | 1,189,344 | 1,208,316 |
| Interest Paid | | (28,235,596) | (34,379,667) | (28,235,596) | (34,379,667) |
| Suppliers and Employees | | (35,539,439) | (35,492,047) | (33,708,018) | (33,276,723) |
| Taxes Paid | | (4,134,998) | (4,343,054) | (3,900,000) | (4,343,054) |
| Net Cash from Revenue Activities | 38c | 13,273,849 | 9,107,606 | 13,023,071 | 9,195,316 |
| Inflows from Other Operating Activities | | | | | |
| Net Movement in Member Loans | | (160,773,764) | (103,259,070) | (160,773,764) | (103,259,070) |
| Net Movement in Member Shares | | (20,570) | (36,180) | (20,570) | (36,180) |
| Net Movement in Deposits | | 114,576,474 | 51,079,368 | 114,576,474 | 51,079,368 |
| Net Cash from Operating Activities | | (32,944,011) | (43,108,276) | (33,194,789) | (43,020,566) |
| Cash Flows from Investing Activities | | | | | |
| Investment Redemption | | 625,800,167 | 739,383,455 | 625,800,167 | 739,383,455 |
| Proceeds from Sale of Fixed Assets | | 104,886 | 89,498 | 104,886 | 89,498 |
| Purchase of Investments | | (588,975,520) | (696,176,298) | (588,975,520) | (696,176,298) |
| Purchase of Fixed Assets | | (767,431) | (1,889,200) | (745,549) | (1,889,200) |
| Purchase of Customer Contracts | | (550,400) | - | (550,400) | - |
| Net Cash Used in Investing Activities | | 35,611,702 | 41,407,455 | 35,633,584 | 41,407,455 |
| Cash Flow from Financing Activities | | | | | |
| Net Movement in Borrowings | | 1,803,198 | (26,704,861) | 1,803,198 | (26,704,861) |
| Dividend Paid | | (164,200) | (179,200) | - | - |
| Net Cash Provided by Financing Activities | | 1,638,998 | (26,884,061) | 1,803,198 | (26,704,861) |
| Net Increase (Decrease) in Cash | | 4,306,689 | (28,584,882) | 4,241,993 | (28,317,972) |
| Cash at Beginning of Year | | 41,163,039 | 69,747,921 | 40,768,835 | 69,086,807 |
| Cash at End of Reporting | | 45,469,728 | 41,163,039 | 45,010,828 | 40,768,835 |
| Reconciliation of Cash at End of Reporting Period | 38a | | | | |
| Cash | | 7,451,459 | 9,120,417 | 6,992,559 | 8,726,213 |
| Deposits at Call | | 38,018,269 | 32,042,622 | 38,018,269 | 32,042,622 |
| Total | | 45,469,728 | 41,163,039 | 45,010,828 | 40,768,835 |

These accounts should be read in conjunction with the accompanying notes.

## 1. Statement of Significant Accounting Policies

This financial report is prepared for Police Bank Ltd and subsidiaries' for the year ended the 30 June 2017. The report was authorised for issue on 28th September 2017 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

Police Bank Ltd is a public company incorporated and domiciled in Australia. The address of its principal place of business is 25 Pelican Street, Surry Hills NSW 2010.

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

### a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets except for certain 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 derecognised.

### 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 profit or loss 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 the reporting 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 reporting 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 profit or loss.

### 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 profit or loss. Revaluation decreases are debited to the profit or loss 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 5% - 20%
Leasehold Improvements 2.5% - 25%

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 the reporting 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 reporting date.

### Interest payable
Interest on savings is calculated on the daily balance and posted to the accounts periodically 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 profit or loss 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 the reporting 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 the reporting 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 profit or loss 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 profit or loss 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 profit or loss 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 financial planning business has been recognised as other identifiable intangible assets in the form of acquired customer relationships. These are being amortised over 20 years.

### 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 profit or loss 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. Derecognition 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.

The useful life of the Banks Investment in Chelsea Wealth Management Pty Ltd has been calculated at 20 years.

### v. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2016 that had any significant impact on the financial statements of the Mutual Bank.

### w. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting period. Police 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 Police Bank have not been reported.

| AASB reference | Nature of Change | Application Date | Impact on Initial Application |
|---|---|---|---|
| AASB 9 Financial Instruments (December 2014) | The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets.<br>AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.<br><br>Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. Recognition of credit losses are to no longer be dependent on the Mutual Bank first identifying a credit loss event. The Mutual Bank will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments. | Periods beginning on or after 1 January 2018 | The Mutual Bank has carried out a preliminary assessment of the impact of the new standard. The classification and measurement of financial assets is expected to remain largely unchanged with HTM investments to be reclassified to amortised cost and FVOCI categories and the AFS investments reclassified as FVOCI.<br>The requirements for general hedge accounting have been simplified for hedge effectiveness testing and are not expected to impact materially the Bank based on its existing interest rate swap contracts.<br>The new expected loss impairment model will require more timely recognition of expected credit losses. The overall impact of applying AASB 9 has not yet been determined by the Bank. Adjustments during the transition process will be recognised either in opening retained earnings or the general reserve for credit losses. |
| AASB 15 Revenue from Contracts with Customers | Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.<br>AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations. | Periods beginning on or after 1 January 2018 | Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the Bank's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Few revenue transactions of the Mutual Bank are impacted by the new standard. |
| AASB 16 Leases Replaces AASB 117 | AASB 16:<br>replaces AASB 117 Leases and some lease-related Interpretations;<br>requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;<br>provides new guidance on the application of the definition of lease and on sale and lease back accounting; and<br>requires new and different disclosures about leases. | Periods beginning on or after 1 January 2019 | Based on a preliminary assessment, The Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements. |
| AASB 2016-1 Amendments to Australian Accounting Standards-Disclosure Initiative: Amendments to AASB 112. | AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. | 1 January 2017 | When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements. |

| AASB reference | Nature of Change | Application Date | Impact on Initial Application |
|---|---|---|---|
| AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107. | AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. | 1 January 2017 | When these amendments are first adopted for the year ending 30 June 2018 there will be no material impact on the financial statements. |
| Transfers of Investment Property (Amendments to IAS 40). | The amendments clarify that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in IAS 40,57 (a) – (d) as a non-exhaustive list of examples of evidence that a change in use has occurred. In addition, the IASB has clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable | 1 January 2018 | When these amendments are first adopted for the year ending 30 June 2019 there will be no material impact on the financial statements. |

## 2. Statement of Profit or Loss and Other Comprehensive Income

### a. Analysis of Interest Revenue

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Category of Interest Bearing Assets | | | | |
| Cash - Deposit | 354,802 | 844,715 | 354,802 | 844,715 |
| Receivables from Financial Institutions | 7,299,613 | 11,240,002 | 7,299,613 | 11,239,668 |
| Loans and Advances | 61,336,902 | 59,761,156 | 61,336,902 | 59,761,156 |
| Total | 68,991,317 | 71,845,873 | 68,991,317 | 71,845,539 |

### b. Analysis of Interest Expense

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Category of Interest Bearing Liabilities | | | | |
| Member Deposits | 25,392,888 | 26,988,866 | 25,392,888 | 26,988,866 |
| Overdraft | 40,640 | 57,689 | 40,640 | 57,689 |
| Others | 2,838,447 | 5,606,709 | 2,838,447 | 5,606,709 |
| Total | 28,271,975 | 32,653,264 | 28,271,975 | 32,653,264 |

## 3. Profit from Ordinary Activities - Revenue

| | Consolidated 2017 $ | Consolidated 2016 $ | Police Bank 2017 $ | Police Bank 2016 $ |
|---|---|---|---|---|
| Dividend Revenue | 532,544 | 491,513 | 1,189,344 | 1,208,313 |
| Fee and Commission Revenue | | | | |
| - Loan Fee Income | 1,519,062 | 1,485,832 | 1,519,062 | 1,485,832 |
| - Other Fee Income | 2,489,345 | 2,322,908 | 2,489,345 | 2,322,908 |
| - Insurance Commissions | 3,287,567 | 2,985,456 | 3,287,567 | 2,985,456 |
| - Other Commissions | 3,570,262 | 3,507,627 | 596,265 | 663,547 |
| Bad Debts Recovered | 85,770 | 96,408 | 85,770 | 96,408 |
| Total Revenue from Ordinary Activities | 11,484,550 | 10,889,744 | 9,167,353 | 8,762,464 |
| Other Revenue | | | | |
| - Other | 132,767 | 122,438 | 132,767 | 122,438 |
| Total Revenue from Other Activities | 132,767 | 122,438 | 132,767 | 122,438 |
| Total Revenue from Ordinary and Other Activities | 11,617,317 | 11,012,182 | 9,300,120 | 8,884,902 |

## 4. Profit from Ordinary Activities - Expenses

| | Consolidated 2017 $ | Consolidated 2016 $ | Police Bank 2017 $ | Police Bank 2016 $ |
|---|---|---|---|---|
| a. Loan Impairment Losses | | | | |
| Increase/(decrease) in provision for impairment | 129,976 | (144,596) | 129,976 | (144,596) |
| Bad Debts written off directly against profit | 380,605 | 472,803 | 380,605 | 472,803 |
| Total Impairment Losses | 510,581 | 328,207 | 510,581 | 328,207 |
| b. Other Prescribed Expense Disclosures | | | | |
| Auditor's Remuneration | | | | |
| - Audit Fees - Grant Thornton | 152,597 | 150,650 | 152,597 | 150,650 |
| - Other Services | 38,571 | 13,750 | 17,771 | 13,750 |
| | 191,168 | 164,400 | 170,368 | 164,400 |
| Profit /(loss) on disposal of assets | | | | |
| - Property, Plant and Equipment | (3,953) | (26,415) | (3,953) | (26,415) |
| Net movement in provision for Depreciation | | | | |
| - Buildings | 355,467 | 409,355 | 355,467 | 409,355 |
| - Plant and Equipment | 1,350,548 | 1,234,492 | 1,328,155 | 1,162,864 |
| - Leasehold Improvements | 341,001 | 244,002 | 310,937 | 244,002 |
| - Intangible Assets | 429,917 | 374,089 | 47,517 | 81,823 |
| Other Expense | | | | |
| - Supervision Levy | 75,351 | 71,584 | 75,351 | 71,584 |
| - Superannuation | 1,656,555 | 1,687,452 | 1,495,730 | 1,564,486 |
| Total | 1,731,906 | 1,759,036 | 1,571,081 | 1,636,070 |

## 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 | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Prima facie tax payable on operating profit before income tax at 30% | 3,636,675 | 3,750,697 | 3,603,543 | 3,683,948 |
| Non-deductable expenditure | (48,263) | 49,156 | (48,263) | 48,194 |
| First Home Savers account | - | (39,735) | - | (39,735) |
| Building depreciation | 106,640 | 122,807 | 106,640 | 122,807 |
| Amortisation | 114,720 | 87,680 | - | - |
| Imputation credit | 152,916 | 155,355 | 152,916 | 155,355 |
| Rebate on fully franked dividends | (312,679) | (302,810) | (509,719) | (517,850) |
| Deduction not allowed in accounting expenses | 27,751 | (11,326) | - | - |
| Over provision of Income Tax | 152,241 | (139,439) | 183,295 | (139,643) |
| Total | 3,830,001 | 3,672,385 | 3,488,412 | 3,313,076 |
| b. Income tax expense comprises amounts | | | | |
| Provision for income tax attributable to current year taxable income | 3,498,087 | 3,892,232 | 3,125,444 | 3,533,127 |
| Movement in future income tax benefit | 86,595 | 4,616 | 86,595 | 4,616 |
| Movement in deferred tax liability | 93,078 | (85,024) | 93,078 | (85,024) |
| Over provision of Income Tax | 152,241 | (139,439) | 183,295 | (139,643) |
| | 3,830,001 | 3,672,385 | 3,488,412 | 3,313,076 |
| 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. | 66,252,526 | 63,196,009 | 66,184,378 | 63,122,333 |

## 6. Cash and Liquid Assets

| | | | | |
|---|---|---|---|---|
| Cash on hand | 2,976,043 | 3,024,612 | 2,517,143 | 2,630,408 |
| Deposits at call | 38,018,269 | 32,042,622 | 38,018,269 | 32,042,622 |
| Cash at Bank | 4,423,977 | 6,044,365 | 4,423,977 | 6,044,365 |
| Security Deposits | 51,439 | 51,440 | 51,439 | 51,440 |
| | 45,469,728 | 41,163,039 | 45,010,828 | 40,768,835 |

## 7. Receivables Due from other Financial Institutions

| | | | | |
|---|---|---|---|---|
| Deposits - Term | 24,000,000 | 50,000,000 | 24,000,000 | 50,000,000 |

## 8. Accrued Receivables

| | | | | |
|---|---|---|---|---|
| Interest Receivable on deposits with other Financial Institutions | 793,158 | 1,404,142 | 793,158 | 1,404,142 |
| Prepayments | 828,546 | 525,567 | 828,546 | 525,567 |
| Sundry Debtors | 2,523,841 | 2,046,897 | 2,239,083 | 1,790,354 |
| | 4,145,545 | 3,976,606 | 3,860,787 | 3,720,063 |

## 9. Investment Securities

| | | | | |
|---|---|---|---|---|
| Bank Bills and Certificate of Deposits | 100,379,273 | 104,083,144 | 100,379,273 | 104,083,144 |
| Floating Rate Notes | 85,185,440 | 93,206,668 | 85,185,440 | 93,206,668 |
| Subordinated Debt | 11,160,000 | 13,160,000 | 11,160,000 | 13,160,000 |
| | 196,724,713 | 210,449,812 | 196,724,713 | 210,449,812 |

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 final maturity date of 24th October 2022, can be called earlier on a quarterly basis from 31st December 2017.

Subordinated Debt - On 29th August 2014 the Bank invested in subordinated notes issued by ME Bank. The rights of the noteholders are subordinated to the claims of all creditors (including depositors) of ME Bank. The notes have quarterly interest payable in arrears with a final maturity date of 29th August 2024. ME Bank may redeem the notes on 29th August 2019 subject to prior approval from APRA.

## 10. Loans and Advances

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| a. Amount Due comprises | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Overdrafts and Revolving Credit Loans | 39,937,330 | 42,140,230 | 39,937,330 | 42,140,230 |
| Term Loans | 1,332,811,444 | 1,170,215,385 | 1,332,811,444 | 1,170,215,385 |
| | 1,372,748,774 | 1,212,355,615 | 1,372,748,774 | 1,212,355,615 |
| Less: Provision for Impaired Loans | (543,270 ) | (413,294) | (543,270 ) | (413,294) |
| Less: Unamortised Loan Origination Fees | (1,930,697) | (1,602,078) | (1,930,697) | (1,602,078) |
| Plus: Amortised Loan Transaction Costs | 2,364 | 15,644 | 2,364 | 15,644 |
| Net Loans and Advances | 1,370,277,171 | 1,210,355,887 | 1,370,277,171 | 1,210,355,887 |
| | | | | |
| b. Credit Quality - Security held against Loans | | | | |
| Secured by Mortgage | 1,230,568,450 | 1,092,380,598 | 1,230,568,450 | 1,092,380,598 |
| Secured Other | 61,553,439 | 57,186,331 | 61,553,439 | 57,186,331 |
| Unsecured | 80,626,885 | 62,788,686 | 80,626,885 | 62,788,686 |
| | 1,372,748,774 | 1,212,355,615 | 1,372,748,774 | 1,212,355,615 |

It is not practicable to value all collateral as at the balance date 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 | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| - loan to valuation ratio of less than 80%; | 902,602,955 | 766,604,562 | 902,602,955 | 766,604,562 |
| - loan to valuation ratio of more than 80% but mortgage insured; and | 276,543,815 | 276,097,586 | 276,543,815 | 276,097,586 |
| - loan to valuation ratio of more than 80% and not mortgage insured. | 51,421,680 | 49,678,450 | 51,421,680 | 49,678,450 |
| Total | 1,230,568,450 | 1,092,380,598 | 1,230,568,450 | 1,092,380,598 |
| c. Concentration of Loans | | | | |
| (i) Individual loans which exceed 10% of Member Funds in aggregate amount to $0.00 (2016 $0.00) | - | - | - | - |
| (ii) Loan purpose dissection: | | | | |
| - Residential | 1,043,029,677 | 926,080,116 | 1,043,029,677 | 926,080,116 |
| - Personal | 131,549,477 | 108,810,264 | 131,549,477 | 108,810,264 |
| - Commercial* | 187,538,766 | 166,304,321 | 187,538,766 | 166,304,321 |
| - Lease | 10,630,854 | 11,160,914 | 10,630,854 | 11,160,914 |
| | 1,372,748,774 | 1,212,355,615 | 1,372,748,774 | 1,212,355,615 |

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

## Geographical Areas

| Geographical Areas | Housing | Personal | Credit Card | Overdraft | Business | Total |
|---|---|---|---|---|---|---|
| Sydney City | 249,121,872 | 19,899,527 | 5,013,077 | 1,574,623 | 663,164 | 276,272,263 |
| Western Suburbs | 221,487,920 | 15,268,876 | 3,779,768 | 930,044 | - | 241,466,608 |
| Australian Capital Territory | 183,210,128 | 16,801,231 | 3,168,167 | 1,142,267 | 36,696 | 204,358,489 |
| Illawarra | 162,871,160 | 9,615,487 | 2,338,992 | 629,626 | 43,320 | 175,498,585 |
| Hunter Valley | 117,482,526 | 9,146,227 | 1,766,542 | 681,255 | 72,009 | 129,148,559 |
| NSW North Coast | 84,021,277 | 8,569,868 | 1,219,162 | 939,178 | - | 94,749,485 |
| Central Coast | 67,526,586 | 8,412,657 | 1,287,528 | 516,441 | - | 77,743,212 |
| Other States | 51,314,579 | 5,386,698 | 1,444,412 | 933,945 | - | 59,079,634 |
| NSW Country | 40,845,975 | 5,745,527 | 849,326 | 294,842 | - | 47,735,670 |
| Blue Mountains | 37,030,526 | 1,888,845 | 547,170 | 148,274 | - | 39,614,815 |
| South Coast | 14,840,705 | 1,169,904 | 255,828 | 184,163 | - | 16,450,600 |

## 11. Provision on Impaired Loans

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| **a. Total Provision Comprises** | | | | |
| Specific Provision | - | - | - | - |
| Collective Provision | 543,270 | 413,294 | 543,270 | 413,294 |
| | 543,270 | 413,294 | 543,270 | 413,294 |
| **b. Movement in Specific Provision** | | | | |
| Balance at the beginning of the year | 413,294 | 557,890 | 413,294 | 557,890 |
| Add: Transfers from Income Statement | - | - | - | - |
| Deduct: Bad debts written off against provision | - | - | - | - |
| Add (Deduct): Transfers to Income Statement | 129,976 | (144,596) | 129,976 | (144,596) |
| Balance at end of year | 543,270 | 413,294 | 543,270 | 413,294 |
| **c. Impaired Loans Written Off** | | | | |
| Amount written off against the provision for impaired loans | - | - | - | - |
| Amounts written off directly to expense | 380,605 | 472,803 | 380,605 | 472,803 |
| Total bad debts | 380,605 | 472,803 | 380,605 | 472,803 |
| Bad debts recovered in the period | 85,770 | 96,408 | 85,770 | 96,408 |
| **d. Impaired Loan Disclosures Impaired Loans as at Balance Date** | | | | |
| Balance of the impaired loans | 926,542 | 693,366 | 926,542 | 693,366 |
| Estimated value of loans which is secured | 1,417,881 | 199,625 | 1,417,881 | 199,625 |
| Loans with repayments Past Due but not impaired (due to security held) | | | | |
| - Real estate | 1,417,881 | 199,625 | 1,417,881 | 199,625 |
| - Other | - | - | - | - |

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

| | Carrying Value 2017 $ | Provision 2017 $ | Carrying Value 2016 $ | Provision 2016 $ |
|---|---|---|---|---|
| Mortgage Insured | 2,799,878 | - | 3,454,875 | - |
| 30 up to 89 days in arrears | 1,301,325 | - | 457,045 | - |
| 90 to 181 days in arrears | 463,215 | 185,287 | 438,581 | 175,432 |
| 182 to 272 days in arrears | 112,352 | 67,411 | 63,043 | 37,826 |
| 273 to 364 days in arrears | 45,938 | 36,750 | 604,535 | 72,586 |
| 365 days and over in arrears | 164,634 | 164,634 | 26,282 | 26,282 |
| Over limit facilities over 14 days | 158,078 | 89,188 | 156,599 | 101,168 |
| Total | 5,045,420 | 543,270 | 5,200,960 | 413,294 |

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.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | Value of impaired loans | Provision for impairment | Carrying Value | Value of impaired loans | Provision for impairment |
| Mortgages | 3,961,066 | 508,156 | 212,995 | 4,434,550 | 199,625 | 79,850 |
| Personal | 721,611 | 327,095 | 221,020 | 609,830 | 370,371 | 209,436 |
| Credit Cards | 279,511 | 55,559 | 74,330 | 174,160 | 54,745 | 62,637 |
| Overdrafts | 286,311 | 35,732 | 34,925 | 418,220 | 68,625 | 61,371 |
| Lease | - | - | - | 30,710 | - | - |
| Total to Natural Persons | 5,248,499 | 926,542 | 543,270 | 5,667,470 | 693,366 | 413,294 |
| Corporate Borrowers | - | - | - | - | - | - |
| Total | 5,248,499 | 926,542 | 543,270 | 5,667,470 | 693,366 | 413,294 |

## 12(a). Available for Sale Investments

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Cuscal Member Shares (i) | 3,759,137 | 4,121,772 | 3,759,137 | 4,121,772 |
| PCU 2009-1 Trust (ii) | 7,573,534 | 4,673,083 | 7,573,534 | 4,673,083 |
| Total | 11,332,671 | 8,794,855 | 11,332,671 | 8,794,855 |

(i) The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all Mutual Banks and Credit Unions. 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. The volume of shares traded in the shares is low with few transactions in the past 3 years.

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.

Management has determined that the cost value of shares is a reasonable approximation of fair value based on the likely value available on a sale and the low volume of trading in shares.

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.

## 12(b). Investment in Subsidiary

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Investment in Subsidiary | - | - | 5,274,117 | 4,723,717 |
| Total | - | - | 5,274,117 | 4,723,717 |

## 13. Property, Plant and Equipment

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| a. Fixed assets | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Land at cost | 5,589,354 | 5,589,354 | 5,589,354 | 5,589,354 |
| Buildings at cost | 12,376,510 | 12,376,510 | 12,376,510 | 12,376,510 |
| Less: Provisions for depreciation | (1,004,691) | (649,224) | (1,004,691) | (649,224) |
| Total Buildings | 11,371,819 | 11,727,286 | 11,371,819 | 11,727,286 |
| Total Land and Buildings | 16,961,173 | 17,316,640 | 16,961,173 | 17,316,640 |
| Plant and Equipment at cost | 10,639,135 | 10,603,902 | 10,465,852 | 10,445,730 |
| Less: Provision for depreciation | (6,043,726) | (5,138,176) | (5,915,972) | (5,031,157) |
| Total Plant and Equipment | 4,595,409 | 5,465,726 | 4,549,880 | 5,414,573 |
| Capitalised leasehold improvements at cost | 2,695,825 | 2,803,936 | 2,546,288 | 2,659,510 |
| Less: Provision for depreciation | (2,061,316) | (1,920,288) | (1,947,317) | (1,836,353) |
| Total Capitalised Leasehold Improvements | 634,509 | 883,648 | 598,971 | 823,157 |
| Closing Balance 30 June | 22,191,091 | 23,666,014 | 22,110,024 | 23,554,370 |

b. Movement in the asset balances during the year were:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Property | Plant & Equipment | Leasehold Improvements | Property | Plant & Equipment | Leasehold Improvements |
| Opening Balance 1 July | 17,316,640 | 5,465,726 | 883,648 | 1,593,992 | 21,711,773 | 575,832 |
| Add: Purchases in the year | - | 589,070 | 100,241 | 16,132,003 | (14,895,642) | 551,818 |
| Less: Disposal of assets | - | (104,886) | - | - | (89,498) | - |
| Gain/(Loss) on Sale | - | (3,953) | (8,379) | - | (26,415) | - |
| Depreciation charge | (355,467) | (1,350,548) | (341,001) | (409,355) | (1,234,492) | (244,002) |
| Closing Balance 30 June | 16,961,173 | 4,595,409 | 634,509 | 17,316,640 | 5,465,726 | 883,648 |

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| **14. Intangible Assets** | | | | |
| Computer Software | 408,998 | 715,954 | 408,998 | 715,954 |
| Less: Provision for Amortisation | (287,861) | (625,419) | (287,861) | (625,419) |
| Acquired Customer Relationships | 6,365,451 | 5,677,451 | - | - |
| Less: Provision for Amortisation | (812,441) | (430,041) | - | - |
| | 5,674,147 | 5,337,945 | 121,137 | 90,535 |
| Movement in the intangible asset balances during the year were: | | | | |
| Opening Balance 1 July | 5,337,945 | 5,630,490 | 90,535 | 90,814 |
| Add: Purchases in the year | 78,119 | 101,020 | 78,119 | 101,020 |
| Add: Purchase of Customer Contracts | 688,000 | - | - | - |
| Less: Disposal of Assets | - | - | - | - |
| Less: Loss on sale | - | (19,476) | - | (19,476) |
| Amortisation charge | (429,917) | (374,089) | (47,517) | (81,823) |
| Closing Balance 30 June | 5,674,147 | 5,337,945 | 121,137 | 90,535 |
| **15. Taxation Assets** | | | | |
| Deferred Tax Asset | 1,474,717 | 1,388,122 | 1,474,717 | 1,388,122 |
| Deferred Tax Asset Comprises: | | | | |
| - Provision for Impairment on Loans | 162,981 | 123,988 | 162,981 | 123,988 |
| - Provision for Staff Entitlements | 990,685 | 943,214 | 990,685 | 943,214 |
| - Audit Accrual | 28,935 | 38,736 | 28,935 | 38,736 |
| - Other | 292,116 | 282,184 | 292,116 | 282,184 |
| | 1,474,717 | 1,388,122 | 1,474,717 | 1,388,122 |
| **16. Amounts Payable to Other Financial Institutions** | | | | |
| Overdraft Secured (Note 32) | - | - | - | - |
| Negotiable Certificate of Deposit | 48,160,357 | 71,357,159 | 48,160,357 | 71,357,159 |
| Medium Term Note | 60,000,000 | 35,000,000 | 60,000,000 | 35,000,000 |
| | 108,160,357 | 106,357,159 | 108,160,357 | 106,357,159 |
| **17. Deposits** | | | | |
| Member Deposits: | | | | |
| - at call | 710,357,669 | 624,082,770 | 710,357,669 | 624,082,770 |
| - term | 658,279,559 | 629,977,984 | 658,279,559 | 629,977,984 |
| | 1,368,637,228 | 1,254,060,754 | 1,368,637,228 | 1,254,060,754 |
| Withdrawable Shares | 298,060 | 318,630 | 298,060 | 318,630 |
| | 1,368,935,288 | 1,254,379,384 | 1,368,935,288 | 1,254,379,384 |

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 on the next page.

| | Consolidated 2017 $ | Consolidated 2016 $ | Police Bank 2017 $ | Police Bank 2016 $ |
|---|---|---|---|---|
| Industry Group | | | | |
| State Government | 513,527,169 | 461,362,495 | 513,527,169 | 461,362,495 |
| Federal Government | 139,305,668 | 123,337,161 | 139,305,668 | 123,337,161 |
| Geographic Areas | | | | |
| Sydney City | 441,694,908 | 415,890,753 | 441,694,908 | 415,890,753 |
| Western Suburbs | 252,046,961 | 220,495,591 | 252,046,961 | 220,495,591 |
| Illawarra | 129,149,885 | 120,496,025 | 129,149,885 | 120,496,025 |
| Australian Captial Territory | 123,289,480 | 113,333,231 | 123,289,480 | 113,333,231 |
| Hunter Valley | 105,524,170 | 100,068,397 | 105,524,170 | 100,068,397 |
| NSW North Coast | 93,216,971 | 82,356,903 | 93,216,971 | 82,356,903 |
| Central Coast | 73,483,486 | 68,224,194 | 73,483,486 | 68,224,194 |
| Other States | 61,834,041 | 50,902,841 | 61,834,041 | 50,902,841 |
| Blue Mountains | 37,546,616 | 33,710,145 | 37,546,616 | 33,710,145 |
| NSW Country | 29,195,667 | 26,641,421 | 29,195,667 | 26,641,421 |
| South Coast | 21,655,043 | 21,941,253 | 21,655,043 | 21,941,253 |
| **18. Creditors and Other Liabilities** | | | | |
| Creditors and Accruals | 12,023,844 | 11,376,242 | 11,966,494 | 11,230,697 |
| Interest Payable on Deposits | 4,975,885 | 4,939,505 | 4,975,885 | 4,939,505 |
| | 16,999,729 | 16,315,747 | 16,942,379 | 16,170,202 |
| **19. Provisions** | | | | |
| Employee Benefits | 2,074,209 | 2,104,639 | 1,903,226 | 2,104,639 |
| Leasehold Make Good | 750,000 | 435,002 | 750,000 | 435,002 |
| Other | 17,192 | 13,069 | 17,192 | 13,069 |
| | 2,841,401 | 2,552,710 | 2,670,418 | 2,552,710 |
| **20. Taxation Liabilities/Assets** | | | | |
| Provisions for Income tax/(Receivable) | (311,476) | (795,356) | (418,067) | (918,820) |
| Provision for Deferred Income Tax | 771,726 | 678,648 | 771,726 | 678,648 |
| Other | 144,193 | 161,072 | 22,838 | 49,085 |
| Total Taxation Liabilities/(Assets) | 604,443 | 44,364 | 376,497 | (191,087) |
| Provision for Deferred Income Tax Comprises: | | | | |
| - Prepayments; | 2,776 | 14,798 | 2,776 | 14,798 |
| - Tax allowances relating to Property, Plant & Equipment; and | 694,944 | 590,744 | 694,944 | 590,744 |
| - Tax allowances relating to Chelsea Wealth Management Pty Ltd. | 74,006 | 73,106 | 74,006 | 73,106 |
| | 771,726 | 678,648 | 771,726 | 678,648 |
| **21. Capital Reserve Account** | | | | |
| Balance 1 July | 412,060 | 375,150 | 412,060 | 375,150 |
| Transfer from retained earnings on share redemptions | 20,700 | 36,910 | 20,700 | 36,910 |
| Balance 30 June | 432,760 | 412,060 | 432,760 | 412,060 |

## 22. General Reserves For Credit Losses

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| General Reserves For Credit Losses | 2,740,600 | 2,299,695 | 2,740,600 | 2,299,695 |
| Balance 1 July | 2,299,695 | 2,159,248 | 2,299,695 | 2,159,248 |
| Add: Increase (Decrease) transferred from retained earnings | 440,905 | 140,447 | 440,905 | 140,447 |
| Balance 30 June | 2,740,600 | 2,299,695 | 2,740,600 | 2,299,695 |

## 23. Governance and Risk Management

The Board of Directors recognise that they are ultimately responsible for the sound and prudent management of the Bank and ensuring that an adequate and effective system of internal controls is established and maintained. Specifically, the Board:

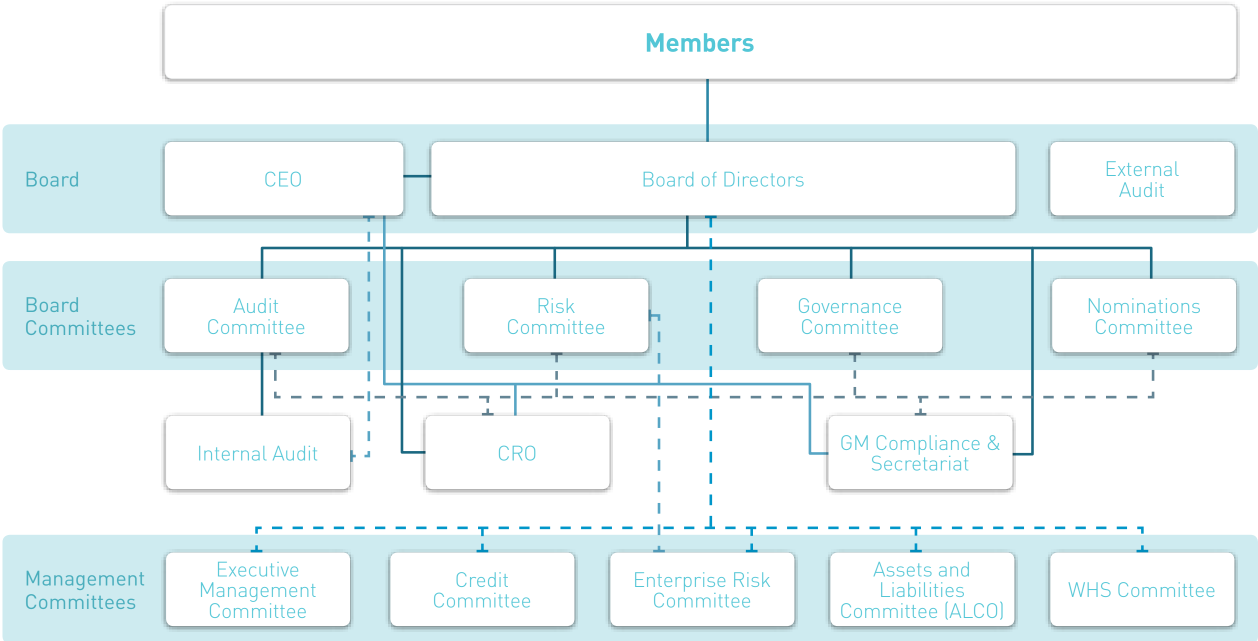
- Establishes a governance structure (Board sub-Committees, management committees, executive responsibilities, risk management and assurance functions);
- Is ultimately responsible for the risk management frameworks and oversees the operation of these by management;
- Sets the risk appetite within which it expects management to operate and approves the Risk Appetite Statement; and
- Establishes and maintains a sound risk management culture by setting the tone at the top.

### Governance

The Board has endorsed a Risk Management Strategy, which forms part of the overall Risk Management Framework. The framework has been developed to suit the risk profile of the Bank.

The Board has established a governance framework that identifies, manages and reports on risk. This is implemented in the Bank as the three lines of defence model with business units and management as the first line (risk owners), risk and compliance as the second line (owns framework and monitors compliance) and internal audit and the respective Board subcommittees as the third line (oversight).

The Board has established separate Governance, Nomination, Risk and Audit Committees each compromising independent Chair and Directors to oversee governance activities; Director and management appointment and remuneration; financial reporting and the effectiveness of audits; and the management and oversight of risk and compliance. The Committees are required to devote time and expertise to these areas over and above the time prescribed in scheduled Board meetings.



Board Governance Committee: The Committee assists the Board as follows:

- Board adherence to good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority in Australian Prudential Standards CPS 510 and CPS 520;
- Ensuring all Directors and responsible persons are of good character and meet the "Fit and Proper" requirements of the Bank's Fit and Proper Policy;
- Advise the Board in regard to its responsibilities in relation to board renewal;
- Review disputes from Members relating to the Bank's policies, procedures, systems or service delivery, which have been unable to be resolved by Management; and
- 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.

This Committee holds at least two meetings each year.

Board Nominations Committee: The Nominations Committee has been established to independently assess the fairness and propriety of all candidates 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 to be eligible to be a Director. This Committee holds at least one meeting each year.

Board Risk Committee: The primary objective of the Risk Committee is to assist the Board with its responsibilities in overseeing the risk governance and compliance of Police Bank and to recommend the risk profile and risk management framework to the Board.

The Risk Committee assists the Board by providing an objective non-executive review of the effectiveness of the Risk Management Framework of the Bank by:

- Providing reasonable assurance to the Board that core business goals and objectives are being achieved in an effective and efficient manner, within an appropriate framework of governance, risk management and internal control;
- Monitoring the adequacy, integrity and effectiveness of the internal control environment and risk management process;
- Reviewing processes established by management to ensure that the requirements of APRA's Prudential Standards and the Corporations Act are being adhered to;
- Monitoring compliance with all other internal, regulatory, prudential, legal, adopted industry and ethical requirements and standards; and
- Forming a view of the risk culture of Police Bank.

The Risk Committee holds at least 4 meetings each year and the Committee periodically monitors the annual risk plan.

Compliance and Risk teams: Compliance and Risk have responsibility for developing risk management and compliance policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risk and compliance for the Bank. The Bank has appointed a qualified Chief Risk Officer (CRO) to head the risk department and a General Manager of Compliance and Secretariat to oversee the compliance and company secretariat functions.

Board Audit Committee: The primary objective of the Audit Committee is to assist the Board of Directors in regard to the Board's responsibilities as they relate to:

- Audit obligations (internal & external);
- Financial reporting practices;
- Accounting policies;
- Management and internal controls.

The Audit Committee:

- Oversees and appraise the quality of the audits conducted by both the Internal and External Auditors;
- Reviews and approve the Internal Audit Charter;
- Provides, through regular meetings, a forum for communication between the Board, Senior Management and both the Internal and External Auditors;
- Serves as an independent and objective party to review the financial information presented by management to Members and regulators; and
- Determines the adequacy of the Bank's administrative, operating and accounting controls.

This Committee holds at least 4 meetings each year and the Committee periodically monitors the annual internal audit plan.

Internal Audit team: Internal Audit has responsibility for auditing the business (including the risk and compliance functions) in line with the annual Audit Plan approved by the Board Audit Committee.

# Risk Management

Police Bank Board has adopted a Risk Management Strategy that sets out its approach to the oversight and management of risks through a comprehensive risk management framework and regularly reviews the soundness and effectiveness of that framework. The framework is designed to identify and manage risk on an ongoing basis.

The Board sets the risk appetite for the Bank, oversees the risk management framework and satisfies itself that the framework is sound by reviewing reports received and monitoring performance. It is the responsibility of management to design and implement the risk management framework and to ensure that the Bank operates within the risk appetite set by the Board.

In determining the risk appetite for the Bank, the Board has determined that the Bank has a low to very low tolerance for risk taking. As a result management is risk aware and has incorporated risk management into strategic planning and decision making to understand and prioritise the management of material business risks. When making a decision to enter into a transaction or pursue a course of action, risks are considered in the context of the risk appetite set by the Board.

Police Bank is committed to maintaining a robust, relevant and good practice risk management framework. As such, the Bank is committed to the ongoing improvement as weaknesses and related improvements are identified. All management (first, second and third lines) are responsible for review and recommending improvements to the frameworks, systems and policies employed by Police Bank to manage risk.

The Bank has the following management committees for managing and reporting on risks for the Bank:

Executive Management Committee (EXCO): This management committee meets weekly and is a forum for the Executive Management team to review operations across the Bank, including strategy & direction, project management, performance and insights and enterprise risks across the Bank.

Credit Committee: This management 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.

Enterprise Risk Committee: This management committee meets monthly and assists the Chief Executive Officer (CEO) and the Executive Management team of Police Bank in fulfilling the responsibilities of the Bank's enterprise-wide risk management framework, including the strategies, policies, standards and systems established by the Board and its Committees to identify, assess, measure and manage its risks facing Police Bank.

Asset and Liability Committee (ALCO): This management 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 ALCO.

Workplace Health & Safety Committee: This management committee meets monthly to assist the Bank in fulfilling its responsibility for the development, monitoring and review of health and safety policies, strategies, systems and processes implemented and reported on to EXCO and the Board.

### Financial Risk Management

The risks that the Bank is exposed to include, but are not limited to:

- Credit risk
- Market risk
  - Interest rate risk
  - Equity investments
  - Liquidity risk
- Operational risk

### Credit Risk

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.

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 collections 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.

### Carrying value

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus undrawn facilities consisting of loans approved not advanced, redraw facilities, overdraft facilities, credit card limits and funds held in loans offset accounts. The risk of losses on loans is reduced through the nature and quality of security taken. All loans and facilities are within Australia with the majority held in NSW and ACT.

The Bank has a concentration in retail lending to Members who are predominantly employees in the NSW Police Force and the Australian Federal Police. This concentration is considered acceptable on the basis that the Bank was formed to service these Members, the industry is an essential and stable industry. Should Members leave this industry other private sector opportunities are available.

Credit risk is managed through a structured framework of systems and controls including:

- Documented credit risk – lending principles that are disseminated to all staff involved in the lending process;
- Documented policies;
- Documented processes for approving and managing lending based on delegations; and
- A series of management reports detailing industry, geographic, and Loan to Value Ratio (LVR) concentrations, along with monitoring non-performing lending.

Documented policies have been endorsed by the Board to ensure that loans are only made to Members who are capable of meeting loans repayments.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | Off Balance Sheet | Maximum Exposure | Carrying Value | Off Balance Sheet | Maximum Exposure |
| Residential | 1,043,029,677 | 66,062,652 | 1,109,092,329 | 926,080,116 | 59,363,694 | 985,443,810 |
| Personal | 112,476,092 | 1,103,228 | 113,579,320 | 90,724,108 | 2,071,431 | 92,795,539 |
| Credit Cards | 21,669,970 | 27,222,470 | 48,892,440 | 20,781,704 | 25,146,516 | 45,928,220 |
| Overdrafts | 8,034,269 | 21,757,380 | 29,791,649 | 8,465,366 | 22,043,654 | 30,509,020 |
| Total to Natural Persons | 1,185,210,008 | 116,145,730 | 1,301,355,738 | 1,046,051,294 | 108,625,295 | 1,154,676,589 |
| Commercial | 187,538,766 | - | 187,538,766 | 166,304,321 | - | 166,304,321 |
| Total | 1,372,748,774 | 116,145,730 | 1,488,894,504 | 1,212,355,615 | 108,625,295 | 1,320,980,910 |

**Market Risk**

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 ALCO.

(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 their 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 ALCO monthly, and to the Board via ALCO 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. Risk Management is also facilitated by the introduction of a Pricing Committee in the 2017 financial year.

(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 2017 the notional principle amounts of the interest rate swap contracts is $20,000,000. The fair value reflected in the Balance Sheet is ($49,995). The valuation of the derivative transactions is based on mid-market levels as of the close of business on 30 June 2017. 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.

Based on the calculations as at 30 June 2017, the calculated market value of equity (EVE) is $159.7 million, with a sensitivity of $8,434,860 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.

### 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 has given notice to CUFSS and will withdraw from the scheme on the 1st September 2017.

| APRA | 2017 | 2016 |
|---|---|---|
| To total adjusted liabilities | | |
| As at 30 June | 15.10% | 16.63% |
| Average for the year | 15.63% | 17.83% |
| Minimum during the year | 15.10% | 16.63% |
| To total Member deposits | | |
| As at 30 June | 19.33% | 20.75% |

### Operational Risk

The Enterprise Risk Committee is responsible for managing and reporting on Enterprise Risk across the Bank, including Operational Risk. Operational risk is the risk of loss resulting from inadequate or failed processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risk at the Bank relates mainly to legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the application of controls whilst avoiding procedures that inhibit innovation and creativity. These controls are managed through the application of policies, processes and systems to minimise the likelihood and impact of risk events.

The Bank has implemented an Operational Risk Management Framework that includes risk identification, measurement, evaluation, monitoring and reporting process where the board and senior management identify key risk in a 'top down' approach and business units identify risks in a 'bottom up' approach.

### 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; and
- Asset revaluation reserves on property.

### Additional Tier 1 capital

This is a new classification of capital and includes:

- Preference share capital approved by APRA and which qualify as Tier 1 capital.

### 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.

| | 2017 |
|---|---|
| Tier 1 | |
| Share capital | 432,760 |
| General reserve | 42,797,000 |
| Retained earnings | 138,796,596 |
| Asset revaluations reserves on property | 268,875 |
| Less prescribed deductions | (22,635,896) |
| Net tier 1 capital | 159,659,335 |
| Tier 2 | |
| Reserve for credit losses | 2,740,600 |
| Tier 2 capital | 2,740,600 |
| Total Capital | 162,399,935 |

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:

| 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Basel III | Basel III | Basel III | Basel III | Basel II |
| 18.65% | 18.87% | 18.53% | 18.72% | 18.47% |

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 2012 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 $7,256,847

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 | Consolidated 2017 $ | Consolidated 2016 $ | Police Bank 2017 $ | Police Bank 2016 $ |
|---|---|---|---|---|
| Financial Assets - carried at amortised cost | | | | |
| Cash | 45,469,728 | 41,163,039 | 45,010,828 | 40,768,835 |
| Receivables from Financial Institutions | 24,000,000 | 50,000,000 | 24,000,000 | 50,000,000 |
| Accrued Receivables | 3,316,999 | 3,451,039 | 3,032,241 | 3,194,496 |
| Investment Securities | 196,724,713 | 210,449,812 | 196,724,713 | 210,449,812 |
| Loans & Advances | 1,370,277,171 | 1,210,355,887 | 1,370,277,171 | 1,210,355,887 |
| Total Loans and Receivables | 1,639,788,611 | 1,515,419,777 | 1,639,044,953 | 1,514,769,030 |
| Available for Sale Investments carried at cost | 11,332,671 | 8,794,855 | 11,332,671 | 8,794,855 |
| Investment in Subsidiary | - | - | 5,274,117 | 4,723,717 |
| Fair Value of Derivatives | - | - | - | - |
| Total Financial Assets | 1,651,121,282 | 1,524,214,632 | 1,655,651,741 | 1,528,287,602 |
| Financial Liabilities carried at amortised cost | | | | |
| Short Term Borrowings | 108,160,357 | 106,357,159 | 108,160,357 | 106,357,159 |
| Deposits from Members | 1,368,637,228 | 1,254,060,754 | 1,368,637,228 | 1,254,060,754 |
| Withdrawable Shares | 298,060 | 318,630 | 298,060 | 318,630 |
| Creditors and Borrowings | 16,999,729 | 16,315,747 | 16,942,379 | 16,170,202 |
| Total Carried at Amortised Cost | 1,494,095,374 | 1,377,052,290 | 1,494,038,024 | 1,376,906,745 |
| Fair Value of Derivatives | 49,995 | 210,786 | 49,995 | 210,786 |
| Total Financial Liabilities | 1,494,145,369 | 1,377,263,076 | 1,494,088,019 | 1,377,117,531 |

## 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.

| 2017 | Balance Sheet | Up to 3 Months | 3 to 12 Months | 1 to 5 Years | After 5 Years | Total Cash Flows |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 45,469,728 | 45,469,728 | - | - | - | 45,469,728 |
| Accrued Receivables | 3,316,999 | 3,316,999 | - | - | - | 3,316,999 |
| Receivables from Financial Institutions | 24,000,000 | 20,113,603 | 4,000,000 | - | - | 24,113,603 |
| Investment Securities | 196,724,713 | 96,000,000 | 27,003,254 | 63,182,186 | 11,160,000 | 197,345,440 |
| Loans and Advances | 1,370,277,171 | 29,395,862 | 88,187,585 | 470,333,785 | 1,373,128,063 | 1,961,045,295 |
| Available for Sale Investments | 11,332,671 | - | - | - | 11,332,671 | 11,332,671 |
| On Balance Sheet Financial Assets | 1,651,121,282 | 194,296,192 | 119,190,839 | 533,515,971 | 1,395,620,734 | 2,242,623,736 |
| Interest Rate Swaps | 20,000,000 | 10,000,000 | - | 10,000,000 | - | 20,000,000 |
| Total Financial Assets | 1,671,121,282 | 204,296,192 | 119,190,839 | 543,515,971 | 1,395,620,734 | 2,262,623,736 |
| **Liabilities** | | | | | | |
| Creditors and Accruals | 12,023,844 | 12,023,844 | - | - | - | 12,023,844 |
| Creditors Interest Payable on Deposits | 4,975,885 | 4,975,885 | - | - | - | 4,975,885 |
| Deposits from Members - At Call | 710,357,669 | 710,357,669 | - | - | - | 710,357,669 |
| Deposits from Members - Fixed Term | 658,279,559 | 325,324,712 | 225,172,465 | 119,795,357 | - | 670,292,534 |
| Negotiable Certificate of Deposit | 48,160,357 | 38,500,000 | 10,000,000 | - | - | 48,500,000 |
| Medium Term Notes | 60,000,000 | 20,000,000 | 25,000,000 | 15,000,000 | - | 60,000,000 |
| Withdrawable Shares | 298,060 | 298,060 | - | - | - | 298,060 |
| Borrowings | - | - | - | - | - | - |
| On Balance Sheet Financial Liabilities | 1,494,095,374 | 1,111,480,170 | 260,172,465 | 134,795,357 | - | 1,506,447,992 |
| Undrawn Loan Commitments | 116,145,730 | 116,145,730 | - | - | - | 116,145,730 |
| Interest Rate Swaps | 20,000,000 | 10,000,000 | - | 10,000,000 | - | 20,000,000 |
| Total Financial Liabilities | 1,630,241,104 | 1,237,625,900 | 260,172,465 | 144,795,357 | - | 1,642,593,722 |

| 2016 | Balance Sheet | Up to 3 Months | 3 to 12 Months | 1 to 5 Years | After 5 Years | Total Cash Flows |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 41,163,039 | 41,163,039 | - | - | - | 41,163,039 |
| Accrued Receivables | 3,451,039 | 3,451,039 | - | - | - | 3,451,039 |
| Receivables from Financial Institutions | 50,000,000 | 40,318,600 | 10,152,022 | - | - | 50,470,622 |
| Investment Securities | 210,449,812 | 70,999,941 | 53,001,411 | 87,365,315 | - | 211,366,667 |
| Loans and Advances | 1,210,355,887 | 26,098,173 | 78,294,519 | 417,570,768 | 1,258,882,416 | 1,780,845,876 |
| Available for Sale Investments | 8,794,855 | - | - | - | 8,794,855 | 8,794,855 |
| On Balance Sheet Financial Assets | 1,524,214,632 | 182,030,792 | 141,447,952 | 504,936,083 | 1,267,677,271 | 2,096,092,098 |
| Interest Rate Swaps | 60,000,000 | 30,021,480 | 10,076,789 | 20,513,896 | - | 60,612,165 |
| Total Financial Assets | 1,584,214,632 | 212,052,272 | 151,524,741 | 525,449,979 | 1,267,677,271 | 2,156,704,263 |
| **Liabilities** | | | | | | |
| Creditors and accruals | 11,376,242 | 11,376,242 | - | - | - | 11,376,242 |
| Creditors Interest Payable on Deposits | 4,939,505 | 4,939,505 | - | - | - | 4,939,505 |
| Deposits from Members - At Call | 624,082,770 | 624,082,770 | - | - | - | 624,082,770 |
| Deposits from Members - Fixed Term | 629,977,984 | 408,405,786 | 134,268,173 | 102,781,835 | - | 645,455,794 |
| Negotiable Certificate of Deposit | 71,357,159 | 52,000,000 | 20,000,000 | - | - | 72,000,000 |
| Medium Term Note | 35,000,000 | - | - | 35,000,000 | - | 35,000,000 |
| Withdrawable Shares | 318,630 | 318,630 | - | - | - | 318,630 |
| Borrowings | - | - | - | - | - | - |
| On Balance Sheet Financial Liabilities | 1,377,052,290 | 1,101,122,933 | 154,268,173 | 137,781,835 | - | 1,393,172,941 |
| Undrawn Loan Commitments | 108,625,295 | 108,625,295 | - | - | - | 108,625,295 |
| Interest Rate Swaps | 60,000,000 | 30,032,784 | 10,107,740 | 20,552,968 | - | 60,693,492 |
| Total Financial Liabilities | 1,545,677,585 | 1,239,781,012 | 164,375,913 | 158,334,803 | - | 1,562,491,728 |

## 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.

| 2017 | Within 12 Months | After 12 Months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | 45,469,728 | - | 45,469,728 |
| Accrued receivables | 3,316,999 | - | 3,316,999 |
| Receivables from Financial Institutions | 24,000,000 | - | 24,000,000 |
| Investment Securities | 122,382,527 | 74,342,186 | 196,724,713 |
| Loans and Advances | 56,315,099 | 1,313,962,072 | 1,370,277,171 |
| Available for Sale Investments | - | 11,332,671 | 11,332,671 |
| On Balance Sheet Financial Assets | 251,484,353 | 1,399,636,929 | 1,651,121,282 |
| Interest Rate Swaps | 10,000,000 | 10,000,000 | 20,000,000 |
| Total Financial Assets | 261,484,353 | 1,409,636,929 | 1,671,121,282 |
| **Liabilities** | | | |
| Creditors and Accruals | 12,023,844 | - | 12,023,844 |
| Creditors Interest Payable on deposits | 4,975,885 | - | 4,975,885 |
| Deposits from Members - At Call | 710,357,669 | - | 710,357,669 |
| Deposits from Members - Fixed Term | 540,822,359 | 117,457,200 | 658,279,559 |
| Negotiable Certificate of Deposit | 48,160,357 | - | 48,160,357 |
| Medium Term Note | 45,000,000 | 15,000,000 | 60,000,000 |
| Withdrawable Shares | 298,060 | - | 298,060 |
| Borrowings | - | - | - |
| On Balance Sheet Financial Liabilities | 1,361,638,174 | 132,457,200 | 1,494,095,374 |
| Undrawn Loan Commitments | 116,145,730 | - | 116,145,730 |
| Interest Rate Swaps | 10,000,000 | 10,000,000 | 20,000,000 |
| Total Financial Liabilities | 1,487,783,904 | 142,457,200 | 1,630,241,104 |

| 2016 | Within 12 Months | After 12 Months | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | 41,163,039 | - | 41,163,039 |
| Accrued receivables | 3,451,039 | - | 3,451,039 |
| Receivables from Financial Institutions | 50,000,000 | - | 50,000,000 |
| Investment Securities | 123,084,497 | 87,365,315 | 210,449,812 |
| Loans and Advances | 46,808,553 | 1,163,547,334 | 1,210,355,887 |
| Available for Sale Investments | - | 8,794,855 | 8,794,855 |
| On Balance Sheet Financial Assets | 264,507,128 | 1,259,707,504 | 1,524,214,632 |
| Interest Rate Swaps | 40,000,000 | 20,000,000 | 60,000,000 |
| Total Financial Assets | 304,507,128 | 1,279,707,504 | 1,584,214,632 |
| **Liabilities** | | | |
| Creditors and Accruals | 11,376,242 | - | 11,376,242 |
| Creditors Interest Payable on deposits | 4,939,505 | - | 4,939,505 |
| Deposits from Members - At Call | 624,082,770 | - | 624,082,770 |
| Deposits from Members - Fixed Term | 528,647,879 | 101,330,106 | 629,977,985 |
| Negotiable Certificate of Deposit | 71,357,159 | - | 71,357,159 |
| Medium Term Note | - | 35,000,000 | 35,000,000 |
| Withdrawable Shares | 318,630 | - | 318,630 |
| Borrowings | - | - | - |
| On Balance Sheet Financial Liabilities | 1,240,722,185 | 136,330,106 | 1,377,052,291 |
| Undrawn Loan Commitments | 108,625,295 | - | 108,625,295 |
| Interest Rate Swaps | 40,000,000 | 20,000,000 | 60,000,000 |
| Total Financial Liabilities | 1,389,347,480 | 156,330,106 | 1,545,677,586 |

## 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.

| 2017 | Floating Rate | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Non Interest Sensitive | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 42,493,685 | - | - | - | 2,976,043 | 45,469,728 |
| Accrued Receivables | - | - | - | - | 3,316,999 | 3,316,999 |
| Receivables from Financial Institutions | - | 24,000,000 | - | - | - | 24,000,000 |
| Investment Securities | - | 186,824,785 | 9,899,928 | - | - | 196,724,713 |
| Loans and Advances | 867,676,188 | 14,040,065 | 79,062,436 | 409,498,482 | - | 1,370,277,171 |
| Available for Sale Investments | - | - | - | - | 11,332,671 | 11,332,671 |
| On Balance Sheet Financial Assets | 910,169,873 | 224,864,850 | 88,962,364 | 409,498,482 | 17,625,713 | 1,651,121,282 |
| Interest Rate Swaps | - | 20,000,000 | - | - | - | 20,000,000 |
| Total Financial Assets | 910,169,873 | 244,864,850 | 88,962,364 | 409,498,482 | 17,625,713 | 1,671,121,282 |
| **Liabilities** | | | | | | |
| Creditors, Interest Payable on Deposits | - | - | - | - | 16,999,729 | 16,999,729 |
| Deposits from Members - At Call | 710,357,669 | - | - | - | - | 710,357,669 |
| Deposits from Members - Fixed Term | - | 273,807,015 | 267,015,344 | 117,457,200 | - | 658,279,559 |
| Negotiable Certificate of Deposit | - | 38,258,511 | 9,901,846 | - | - | 48,160,357 |
| Medium Term Note | - | 60,000,000 | - | - | - | 60,000,000 |
| Withdrawable Shares | - | - | - | - | 298,060 | 298,060 |
| Borrowings | - | - | - | - | - | - |
| On Balance Sheet Financial Liabilities | 710,357,669 | 372,065,526 | 276,917,190 | 117,457,200 | 17,297,789 | 1,494,095,374 |
| Undrawn Loan Commitments | 116,145,730 | - | - | - | - | 116,145,730 |
| Interest Rate Swaps | - | 20,000,000 | | - | - | 20,000,000 |
| Total Financial Liabilities | 826,503,399 | 392,065,526 | 276,917,190 | 117,457,200 | 17,297,789 | 1,630,241,104 |

| 2016 | Floating Rate | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Non Interest Sensitive | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash | 38,138,427 | - | - | - | 3,024,612 | 41,163,039 |
| Accrued Receivables | - | - | - | - | 3,451,039 | 3,451,039 |
| Receivables from Financial Institutions | - | 40,000,000 | 10,000,000 | - | - | 50,000,000 |
| Investment Securities | - | 175,910,828 | 34,538,984 | - | - | 210,449,812 |
| Loans and Advances | 784,591,451 | 21,137,970 | 127,558,988 | 277,067,478 | - | 1,210,355,887 |
| Available for Sale Investments | - | - | - | - | 8,794,855 | 8,794,855 |
| On Balance Sheet Financial Assets | 822,729,878 | 237,048,798 | 172,097,972 | 277,067,478 | 15,270,506 | 1,524,214,632 |
| Interest Rate Swaps | - | 60,000,000 | - | - | - | 60,000,000 |
| Total Financial Assets | 822,729,878 | 297,048,798 | 172,097,972 | 277,067,478 | 15,270,506 | 1,584,214,632 |
| **Liabilities** | | | | | | |
| Creditors, Interest Payable on Deposits | - | - | - | - | 16,315,747 | 16,315,747 |
| Deposits from Members - At Call | 624,082,770 | - | - | - | - | 624,082,770 |
| Deposits from Members - Fixed Term | - | 370,367,792 | 158,280,087 | 101,330,105 | - | 629,977,984 |
| Negotiable Certificate of Deposit | - | 51,634,942 | 19,722,217 | - | - | 71,357,159 |
| Medium Term Note | - | 35,000,000 | - | - | - | 35,000,000 |
| Withdrawable Shares | - | - | - | - | 318,630 | 318,630 |
| Borrowings | - | - | - | - | - | - |
| On Balance Sheet Financial Liabilities | 624,082,770 | 457,002,734 | 178,002,304 | 101,330,105 | 16,634,377 | 1,377,052,290 |
| Undrawn Loan Commitments | 108,625,295 | - | - | - | - | 108,625,295 |
| Interest Rate Swaps | - | 30,000,000 | 30,000,000 | - | - | 60,000,000 |
| Total Financial Liabilities | 732,708,065 | 487,002,734 | 208,002,304 | 101,330,105 | 16,634,377 | 1,545,677,585 |

## 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) | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Net Fair Value | 216,835,129 | 255,119,230 | 1,372,782,846 | 1,212,088,715 |
| Book Value | 220,724,713 | 260,449,811 | 1,372,748,774 | 1,212,355,615 |
| Variance | (3,889,584) | (5,330,581) | 34,072 | (266,900) |

### Liabilities

| | Payable to other Financial Institutions | | Member Deposits | | Interest Rate Swaps | |
|---|---|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Net Fair Value | 48,660,489 | 71,725,720 | 1,368,109,218 | 1,254,553,724 | 19,950,005 | 59,789,214 |
| Book Value | 48,160,357 | 71,357,159 | 1,368,935,288 | 1,254,379,384 | 20,000,000 | 60,000,000 |
| Variance | 500,132 | 368,561 | (826,070) | 174,340 | (49,995) | (210,786) |

## 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.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Notional Value | Fair Value | Notional Value | Fair Value |
| Interest Rate Swaps designated as cash flow hedges | 20,000,000 | 19,950,005 | 60,000,000 | 59,789,214 |

## 30. Expenditure Commitments

### a. Future Capital Commitments

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Within 1 year | 978,333 | 1,028,333 | 978,333 | 1,028,333 |
| 1 to 2 years | 978,333 | 978,333 | 978,333 | 978,333 |
| 3 to 5 years | 2,385,000 | 2,568,333 | 2,385,000 | 2,568,333 |
| over 5 years | 503,137 | 1,298,137 | 503,137 | 1,298,137 |
| | 4,844,803 | 5,873,136 | 4,844,803 | 5,873,136 |

### b. Future Lease Rental Commitments

Future lease rental commitments are $2,648,561 (2016 $1,840,222). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Within 1 year | 963,452 | 619,075 | 963,452 | 619,075 |
| 1 to 2 years | 688,767 | 597,579 | 688,767 | 597,579 |
| 2 to 5 years | 996,342 | 623,568 | 996,342 | 623,568 |
| over 5 years | - | - | - | - |
| | 2,648,561 | 1,840,222 | 2,648,561 | 1,840,222 |

## 31. Financial Commitments

### a. Loan Commitments

Loans approved but not funded as at 30 June 2017 total $52,255,371 (2016 $47,542,585).

### b. Undrawn Loan Facilities

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

| | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Total value of facilities approved | 103,827,689 | 103,222,940 | 103,827,689 | 103,222,940 |
| Less: Amount outstanding at balance day | (39,937,330) | (42,140,230) | (39,937,330) | (42,140,230) |
| Net undrawn value | 63,890,359 | 61,082,710 | 63,890,359 | 61,082,710 |

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.

## 32. Standby Borrowing Facilities

The Bank has the following credit facilities with Cuscal:

| Overdraft | Consolidated | | Police Bank | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Approved Limit | 4,000,000 | 12,000,000 | 4,000,000 | 12,000,000 |
| Less: Amount drawn | - | - | - | - |
| Available to draw | 4,000,000 | 12,000,000 | 4,000,000 | 12,000,000 |

Draw down of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds a cash deposit equivalent to the amount of the overdraft.

## 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 CUFSS 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. The bank has given notice to CUFSS and will withdraw from the scheme on the 1st September 2017.

## 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:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Directors $ | Other KMP $ | Total $ | Directors $ | Other KMP $ | Total $ |
| (a) short term employee benefits | 616,919 | 1,323,796 | 1,940,715 | 513,821 | 2,572,029 | 3,085,850 |
| (b) Post-employment benefits - Superannuation Contributions | 48,168 | 120,070 | 168,238 | 67,579 | 132,500 | 200,079 |
| (c) Other long-term benefits - net increases in Long Service leave provision | - | 18,945 | 18,945 | - | (202,045) | (202,045) |
| (d) Termination benefits | 57,680 | - | 57,680 | 182,844 | 1,248,252 | 1,431,096 |
| (e) Share-based Payment | - | - | - | - | - | - |
| Total | 722,767 | 1,462,811 | 2,185,578 | 764,244 | 3,750,736 | 4,514,980 |

Director Gregory John McKenna was a part-time Treasury consultant for the Bank until October 2016, and received a total of $42.7k plus 10% GST consulting fee in FY17.

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 | |
|---|---|---|---|---|---|
| | | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| (i) | The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to: | 1,460,655 | 1,292,987 | 1,460,655 | 1,292,987 |
| (ii) | The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to: | 49,000 | 48,000 | 49,000 | 48,000 |
| | Less amounts drawn down and included in (i) | (2,619) | (7,859) | (2,619) | (7,859) |
| | Net balance available | 46,381 | 40,141 | 46,381 | 40,141 |
| (iii) | During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to: | | | | |
| | Revolving Credit Facilities | 63,338 | 80,787 | 63,338 | 80,787 |
| | Personal Loans | - | - | - | - |
| | Term Loans | 230,000 | 625,000 | 230,000 | 625,000 |
| Total | | 293,338 | 705,787 | 293,338 | 705,787 |
| (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. | 54,387 | 38,170 | 54,387 | 38,170 |

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 | 1,781,664 | 2,451,328 | 1,781,664 | 2,395,175 |
| Total Interest paid on Deposits to KMP | 54,140 | 14,311 | 54,140 | 14,302 |

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 2017 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 2017, 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 derecognised 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 derecognition 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.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Loans and Receivables | 116,493,252 | 82,159,052 |
| Fair Value of associated liabilities | 7,573,534 | 4,673,083 |

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Off Balance Sheet Financial Commitments | 10,907,391 | 9,381,180 |
| Notes Issued | - | - |

### 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.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Integris securitisation trust (bulk items only) | 910,729 | 1,158,597 |
| Net income received from the continuing involvement cumulatively | 10,626 | 13,695 |

## 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 | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Cash as at balance date comprises: | | | | |
| Cash on Hand | 7,451,459 | 9,120,417 | 6,992,559 | 8,726,213 |
| Deposits at Call | 38,018,269 | 32,042,622 | 38,018,269 | 32,042,622 |
| Less: Overdraft with Cuscal | - | - | - | - |
| | 45,469,728 | 41,163,039 | 45,010,828 | 40,768,835 |

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 | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Operating Profit after Income Tax | 8,292,249 | 8,829,938 | 8,523,398 | 8,966,751 |
| Add (Deduct): | | | | |
| Bad Debts Written Off | 380,605 | 472,803 | 380,605 | 472,803 |
| Depreciation Expense | 2,476,933 | 2,399,713 | 2,042,076 | 1,898,044 |
| (Decrease) in Provision for Employee Entitlements | (30,430) | (518,418) | (201,413) | (518,418) |
| Accrued Expenses | 1,046,620 | (112,339) | 1,134,812 | 71,767 |
| Gain on Sale of Assets | 12,332 | 45,892 | 12,332 | 45,892 |
| (Decrease)/Increase in Prepayments | (302,979) | 114,228 | (302,979) | 114,228 |
| Increase in Unearned Income | 328,619 | 164,229 | 328,619 | 164,229 |
| Amortised Loan Transaction Costs | 13,280 | 10,133 | 13,280 | 10,133 |
| Decrease in Sundry Debtors | 134,040 | 482,792 | 162,255 | 476,815 |
| Increase (Decrease) in Deferred Taxes Payable | 6,483 | (89,640) | 6,483 | (89,640) |
| Provisions for Income Tax | 467,000 | (2,645,101) | 474,506 | (2,370,664) |
| Other Provisions | 449,097 | (46,624) | 449,097 | (46,624) |
| Net Cash from Revenue Activities | 13,273,849 | 9,107,606 | 13,023,071 | 9,195,316 |

## 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 18.65% (2016 18.87%).

### 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 15.10% (2016 16.63%).

### Auditors

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### Bankers

Cuscal Limited

### Affiliations

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Sydney NSW 2000

CUFSS Ltd

Federation of Police Mutuals

### Head Office

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| | |
|---|---|
| BSB: | 815 000 |
| Websites: | www.policebank.com.au / www.customsbank.com.au |
| ABN: | 95 087 650 799 |
| AFSL/Australian Credit Licence No: | 240018 |