

Police & Nurses Limited

ANNUAL REPORT 2022



Directory

Directors

Stephen Craig Targett (Chair)
Kellie Louise Properjohn
(retired 13 December 2021)
Edwin Roy Bradley
(retired 27 October 2021)
Julie Ann Elliott
Andrew Douglas Hadley
Trevor Joel Hunt
Alan Craig Philp
(retired 27 October 2021)
Louise Anne Clarke
Gary Colin Humphreys
Monish Paul
(appointed 21 February 2022)

Chief Executive Officer

Andrew Douglas Hadley

Company Secretary

David Verran Fehlberg

Registered Office

Police & Nurses Limited
ABN 69 087 651 876
Level 6
556 Wellington Street
Perth 6000
Western Australia
Telephone 13 25 77
www.pnbank.com.au

External Auditors

Grant Thornton Audit Pty Ltd
Collins Square, Tower 5
Level 22
727 Collins Street
Melbourne 3008
Victoria

Internal Auditors

PricewaterhouseCoopers
Brookfield Place
125 St Georges Terrace
Perth 6000
Western Australia

Acknowledgement of Country:

At P&N Group we respectfully acknowledge the Traditional Custodians of all the lands on which we work and pay our respects to the elders past and present.

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This financial report covers both the separate financial statements of Police & Nurses Limited as an individual entity and holder of the ADI licence (Bank) and the consolidated financial statements for the consolidated entity consisting of Police & Nurses Limited and its subsidiaries (Group). The financial report presentation and functional currency is Australian dollars.

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

A description of the nature of the Group's operations and its principal activities is included in the Report of the Directors on pages 14 to 18, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 29 August 2022. The Directors have the power to amend and reissue the financial report.

Police & Nurses Limited publishes its Basel III disclosures (including capital and remuneration) on its website at quarterly intervals. The disclosure covering the period ending 30 June 2022 can be found here: <https://www.pnbank.com.au/about/corporate-information/corporate-details/>

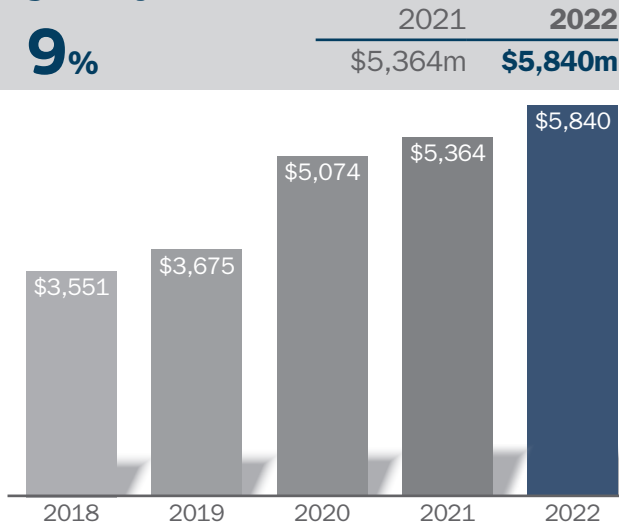
Glossary of abbreviations and defined terms

ADI	Authorised Deposit-taking Institution
Bank, Company or PNL	Police & Nurses Limited ABN 69 087 651 876 as an individual entity and holder of the ADI licence
bcu	the division of the Bank carried on under the trading name 'bcu'
Group	the Company and its subsidiaries
P&N	the division of the Bank carried on under the trading name 'P&N Bank'

Group highlights at a glance

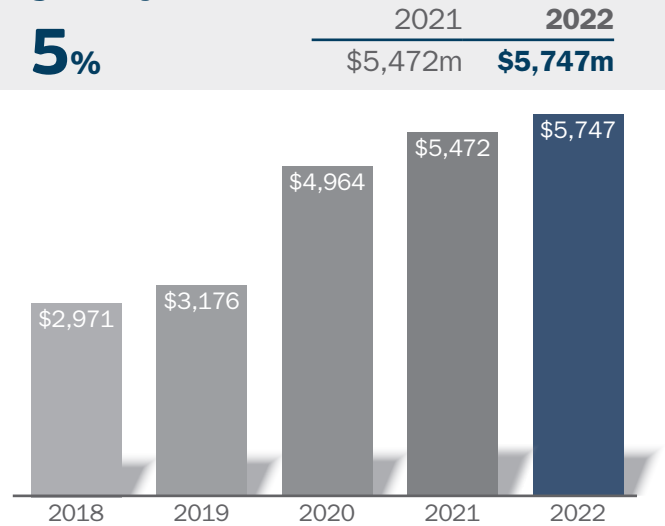
Loans under management
grew by

9%



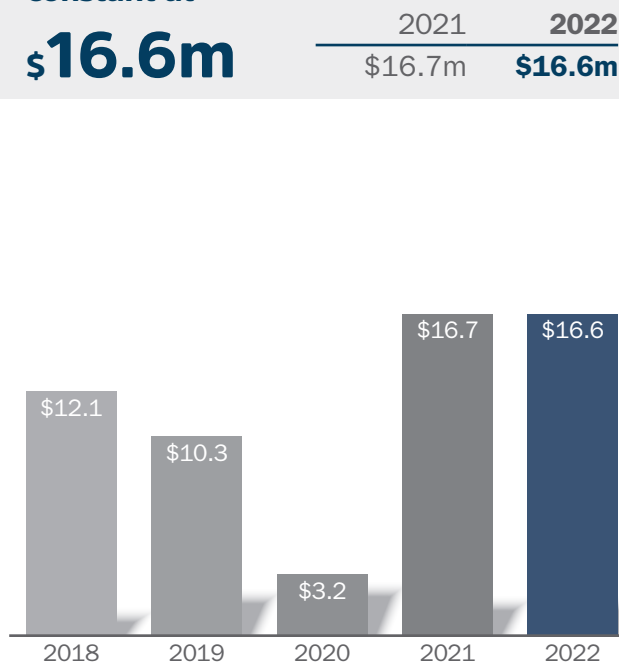
Total deposit balances
grew by

5%



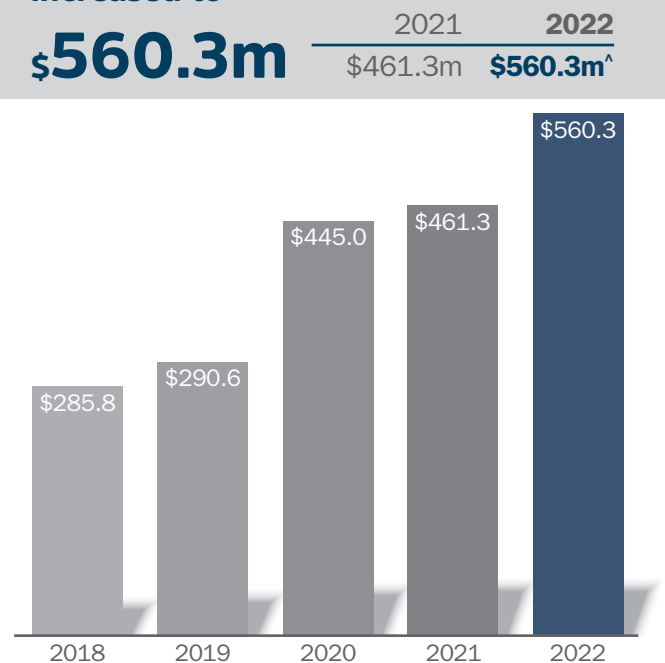
Net profit after tax
remained relatively
constant at

\$16.6m



Total members' funds
increased to

\$560.3m



All numbers in the graphs above are presented in \$ millions.

[^] Post the \$75m Capital Note issuance.

Board Members



Stephen Craig Targett
Chair



Julie Ann Elliott
Director



Louise Anne Clarke
Director



Gary Colin Humphreys
Director



Trevor Joel Hunt
Director



Monish Paul
Director



Andrew Douglas Hadley
Director

Executive Team



Andrew Hadley
Chief Executive Officer



Patrick Jodas
Chief Financial Officer



Phil Thistlethwaite
Chief Transformation
Officer



Christine MacKenzie
Chief People Officer



Warren Willis
Chief Information Officer



Damian Hoff
Acting Chief Risk Officer



Angela Newland
General Manager
P&N Bank



Brendon Comrie
Acting General Manager
bcu



Kaine Adamson
General Manager
Broker



Jacqueline Ryan
General Manager
Business Banking

It's our pleasure to present the 2022 Annual Report for Police & Nurses Limited (PNL or the Group) on behalf of our customer-owned bank brands, P&N Bank (Western Australia) and bcu (New South Wales and Queensland). As a customer-owned banking group, our purpose is to enrich the lives of our members and their communities.

In a challenging landscape wrought with significant economic uncertainty, extreme unprecedented weather events, and the continued impacts of COVID-19, specifically on staffing resource levels, we have recorded another solid year in terms of financial performance and delivered a range of exciting innovations and milestones.

It's vital that we continue to anticipate and adapt to the changing needs and expectations of our members and evolving consumer behaviours. This includes the products and services we offer, the persistent shift towards digital and online banking in favour of in-branch experiences, the role our organisation plays as a socially responsible corporate citizen, and the way we support individuals and communities that need a helping hand.

Easier to bank with

As we reach the 18-month mark of our strategic transformation program our momentum is strong, and we are seeing accelerated benefit realisation from the delivery of a more contemporary banking experience for our retail and business banking members and our broker partners.

In updating some of our legacy banking systems, we have enhanced and simplified our processes, and developed more personalised banking services that will offer greater digital enablement and self-service capability. These changes will make us faster and easier to bank with, work with, and partner with.

Recently we implemented a new Customer Relationship Management (CRM) solution that provides a much better customer experience and increased productivity for our people. Members will enjoy better communications, faster turn-around times and be able to self-serve and book appointments online at their convenience.

In May, we appointed our new General Manager Business Banking, Jacqueline Ryan, who is working closely with our transformation team to create value-adding experiences

for our business banking members. As one of our key strategic priorities, we look forward to delivering a more holistic and comprehensive national business banking offering to complement our retail banking services.

Investing in our broker channel is another key strategic priority and fundamental to our growth story. We offer brokers and their clients a genuine lending alternative to the major banks and are committed to prioritising a market-leading broker experience.

Year on year, our brokers are settling more loans with our two brands than ever before, with settlements up 65% on the previous financial year. As a result of our transformation program, we have already seen a 30% reduction in application processing time and 47% reduction in the number of times an application was handled between parties driving greater efficiency for our teams and faster approval times.

With a focus on member financial wellbeing and empowerment, we are pleased to be at the forefront of delivering Open Banking technology to our members. PNL was an early adopter in becoming an Accredited Data Recipient under the Australian Government's Consumer Data Right (CDR) Scheme. Our new personal financial empowerment app will be launched by both brands soon, providing members with more control of their overall financial situation and well-being.

With our commitment to member experience, this year we received approximately 60% fewer Australian Financial Complaints Authority (AFCA) complaints than similar sized banks, indicating that our people have been empowered and can resolve most member complaints before they are escalated to AFCA.

Through the lens of customer-centric innovation and simplicity, the year ahead will see us deliver improved banking experiences for our members as more benefits of our transformation program are realised.

Chair and CEO Report

Our Social, Environmental and Governance (ESG) impact

Following on from the development of our Climate Change Policy last year, the Board recently approved our inaugural Environmental Social and Governance (ESG) Strategy which provides clear direction on the key issues we will focus on and an action plan to address them.

Through extensive research with staff, members and the wider community, we identified that homelessness and poverty, housing affordability, mental health, climate and the environment, and diversity and inclusion should be the key elements of our strategy.

Our ESG strategic blueprint contains four key pillars:

- Develop financial empowerment capabilities to transform lives.
- Drive positive impacts on key social issues in partnership with community.
- Develop and execute a fit-for-purpose Climate Response Plan.
- Embed ESG consideration into core platforms and services.

We have made progress across a range of areas, including measuring our baseline carbon emissions and developing a Climate Response Plan which focuses on reduction of our main scope one and two emissions.

Our Diversity, Equity & Inclusion (DEI) Strategy, which underpins both our ESG Strategy and our Employee

Value Proposition (EVP), focuses on building an inclusive workplace, inclusive brands, and inclusive design. We are currently developing inclusive processes, systems, and policies for both our staff and members, and currently have over 40 DEI projects underway to help us reach our goals.

An important part of building an inclusive workforce is ensuring staff can connect with other individuals in underrepresented groups and collectively advocate for improvements and change. We have recently taken the opportunity to evolve and establish a new national LGBTQIA+ employee network, a gender equity network, and a working parents' network. Our Reconciliation Journey has also begun with the creation of our Reconciliation Action Plan Committee, and we are now in the process of developing our Innovate Reconciliation Action Plan (RAP).

As part of our objective to offer inclusive and accessible banking experiences for all our members, we have commenced work on our Accessibility Strategy. As one of the initial improvements, PNL led and delivered the National Relay Service (NRS) to provide translation services for our hearing-impaired members.

The issues we will focus on are complex and we recognise that we cannot solve them alone; however, we believe that there are many ways in which we can make a positive contribution and look forward to building on the work done to date in the year ahead.





Our people

PNL is committed to being an employer of choice. This year we re-launched our Employee Value Proposition which prioritises our employee experience resulting in our people feeling invested in, cared for, recognised and part of something bigger.

The national war for talent is being felt across many sectors and ours is no different. We remain focussed on attracting and retaining the talent we need to ensure successful delivery of our member services and broader transformation program through the adoption of new ways of working. At times, the war for talent combined with the lingering effects of COVID-19 have resulted in staff shortages, particularly in our more remote and regional branches and contact centres, and we thank members for their understanding and patience.

This year we successfully negotiated our new national Enterprise Agreement, with over 95% of employees voting in its favour.

Staff engagement remained high despite the impacts of COVID-19, and new leave types, such as vaccination and pandemic leave, were introduced to reduce the financial impact on our people and provide opportunities for our staff to put their health first.

We are proud to offer employees who are affected by family and domestic violence 15 days paid leave per year. We also acknowledge that each family is different and offer both primary and secondary carers with paid leave, while supporting employees returning to work after a birth or adoption.

Creating intentional development opportunities for our people is an important part of what we offer as an employer, and this year we launched our new national mentoring program resourced by 33 internal mentors. This program is a key enabler for connection and belonging, and we also offer coaching and tailored leadership development programs within the business to continue to build people capability.

Our performance

PNL's overall profit after tax attributable to members for the year was flat at \$16.6m and, after allowing for the sale of P&N Financial Planning (PNFP), our Group delivered a strong underlying performance with profit from continuing operations up 15.2%.

We have continued to position our lending and deposit products competitively, with a focus on delivering value to our members. Early benefits from our transformation

program have supported broker lending growth of 17% and overall lending portfolio growth of 9%. Most importantly, this means that we have helped more Australians realise their dream of home ownership for the first time or achieve the next step on the property ladder.

In May, PNL became the first customer-owned bank in the country to issue a Tier 1 Capital Note of \$75m. Not only did this herald a milestone for the customer-owned banking sector, but the issue was 1.4x oversubscribed demonstrating investor confidence in our strategy and direction. The capital raised will be used to accelerate our digital transformation, position us to capitalise on further industry consolidation, and to enable our above system organic growth.

In June, the Pindan Capital Two Rocks Pty Ltd entity under receivership sold the undeveloped property lot for \$15.8m and the net proceeds were paid to the Group. On finalisation of settlement and following a full reconciliation, an additional \$1.5m impairment was raised to cover various ancillary costs including the priority to another lender, holding costs, sales commission, legal and administrator fees.

PNL financial performance highlights for the year:

- Net profit after tax of \$16.6 million.
- Net interest income increased to \$136 million.
- Total loans under management increased 9% to \$5.84 billion.
- Total deposit balances increased 5% to \$5.75 billion.
- Total assets increased 6% to \$7.35 billion.
- Total members' funds increased to \$560.3 million.
- Capital Adequacy position remains healthy ending the year at 15.98%.
- Total membership stands at 167,348.

The road ahead

The year was characterised by global geopolitical and pandemic uncertainty and excessive inflation, which resulted in aggressive and concentrated cash rate increases in recent months with little prospect of relief from either inflation or further rate increases until well into 2023.

Cost of living pressures are impacting households and property price declines are starting to take hold across the country. Global climate change is becoming more and more evident, as extreme weather events batter the globe.

Chair and CEO Report



There is some good news with employment remaining strong and businesses for the time being remaining resilient; however, looking to the future, the cost-of-living pressures combined with property deflation will result in a degree of pain, hopefully short-lived.

As we navigate these difficult and volatile times, we look forward to a more stable future and a more predictable operating environment. PNL remains well placed to continue to stand by and support our members and staff across the country.

Our thanks

In closing out another challenging yet successful year, we wish to thank our Board of Directors for their ongoing expertise and dedication.

Our sincere thanks also to the talented executives, management and staff who continue to put our members at the centre of everything we do.

We recognise again and acknowledge the personal disruption caused by COVID-19 and the floods in NSW and Qld, and we thank our staff for their loyalty in caring for our members through these difficult and turbulent times.

The final thank you is to you, our members, for supporting customer-owned banking and our two bank brands. It is an exciting time for our organisation with strong momentum to deliver more value from our strategic investments and we look forward to your continued support.

Stephen Targett
Chair

Andrew Hadley
Chief Executive Officer

“Through the lens of customer-centric innovation and simplicity, the year ahead will see us deliver improved banking experiences for our members...”



General Manager bcu Report

It is my pleasure to present you with the bcu report for FY22.

bcu had a strong year in terms of new home and business lending, and our brand presence continued to grow with our total membership now exceeding 60,000. Much of the success that bcu experienced was due to the continued investment in skilled resources, improved systems, processes, marketing strategies and data and analytics capability.

It has been another challenging year for our communities, with severe weather events and COVID-19 continuing to be both disruptive and destructive influences. Notwithstanding these challenges, the resilience of our communities and the bcu staff has been remarkable and we have successfully managed to navigate these disruptions together.

Banking highlights

Our product suite was enhanced with new lending and savings products launched during the year, and members are now able to access an expanded range of new competitively priced home loan products which offer more features.

bcu was proud to win industry awards from Mozo and Canstar for our Fixed Rate Home Loan and launched a new concession savings account which supports disadvantaged members. bcu also became part of the Australian Government's First Home Loan Deposit Scheme (FHLDS), supporting borrowers with smaller deposits being able to buy their first homes without the significant burden of mortgage insurance.

During the year, with the support and oversight of the Board, we completed a strategic review of our brand positioning. The primary focus of this review was to ensure that how our brand is positioned going forward is aligned with what our research is telling us about what current and potential future members are looking for. Our continued investment and focus on digitisation saw an increase in members opting to take up our digital offerings. Webchat was introduced and has been well received by members, with approximately 11% of queries now coming in via webchat. We also delivered improvements to the bcu website that were designed to enhance the inclusivity and accessibility of banking experiences for all our members. Pleasingly, work completed to date has seen accessibility compliance for the bcu website improve by over 25%, surpassing the finance industry benchmark for accessibility.

There were also several updates made to the bcu Connect App, including the introduction of Secure Mail. This allows members to complete a range of requests from the convenience of their phone such as card ordering, providing investment instructions, or altering or cancelling scheduled transfers. Optional 'round-up' Pay&Save functionality was also introduced, designed to assist members in saving at their convenience as the digital equivalent of tossing your loose coins in a jar.

Our Business Banking team continued to support and help our member businesses to operate and expand, especially across the agricultural, property and general commercial sectors in both northern New South Wales and Queensland. Our client focus and strong relationship approach combined with competitive pricing, flexibility and industry expertise remain our key strengths and continue to distinguish our offering relative to others in the market.

We continue to embrace the feedback of our business members to better understand what is working well for them and where we have improvement opportunities.

Community

We are proud to have continued to support our members and communities in an environment where COVID-19 and natural disasters continued to challenge us all. The severe floods that hit south-east Queensland and New South Wales in early 2022 had a devastating impact





on several of our regions, with many members and communities facing a long recovery. bcu's response to this event included an array of financial relief options for members, as well as redirecting sponsorship funding to the NSW State Emergency Services, GIVIT and to Rural Aid, which helped those in need within our impacted communities.



Our branches at Toormina, Lismore, Murwillumbah (pictured) and Grafton were destroyed or severely impacted by the extreme weather events which required an agile response to ensure our members' needs could still be

met. We were able to quickly open a full-service pop-up branch at Grafton and, as part of a unique collaborative customer-owned banking initiative in the region, we established a temporary presence at the Lismore Community Banking Hub. Staff from Grafton, Lismore and Murwillumbah who were displaced by flooding graciously travelled to other assignments within the branch network, to assist wherever needed.

We appreciate that unexpected branch closures are inconvenient for members, and we have been diligently working through options to restore branch services wherever possible. We have now secured a new lease for our Grafton and Lismore branches and are looking forward to returning to our Toormina branch once construction is complete.

We once again participated in the annual Can-Do Cancer swim in Coffs Harbour, which raised much-needed funds for the Mid North Coast Cancer Institute which supports local patients and families affected by cancer. More broadly, bcu continued to support key community groups including Woolgoolga Marine Rescue, Sawtell Surf Life Saving Club, the Grafton Jacaranda Festival, the Port Macquarie Ironman and Butterfly House.

Our people are our biggest asset

We have continued to focus on our people, their development and welfare through this challenging period. During the past 12 months our staff have dealt with significant adversity, disruption and change. The way they have responded is a testimony to their resilience, dedication and passion for serving their communities.

The benefits of being part of a multi-brand banking group have become ever more apparent, with our staff able to access a range of contemporary learning and development opportunities through our well-resourced Group learning and development division and supported by our Group-wide cultural renovation program. Pleasingly, more than 30 employees within the bcu brand have progressed their careers during the year moving into more senior roles, or roles more aligned with their long-term career aspirations.

Looking forward

As we look to the next 12 months, we are continuing our focus on improving and, where relevant, adapting the way we communicate with, and service the needs of, our members. We will soon be launching a new and improved website, as well as an exciting new financial empowerment tool as outlined in our Chair/CEO Report which will help our members take control of their money and get ahead.

In addition, as our Group transformation program continues to gather momentum, we expect to deliver simplified lending processes, improved turnaround times for loans and a better overall customer experience. In addition, our new Community Engagement Framework will be brought to life.

In closing, I would personally like to extend our sincere

thanks to you all, for choosing to bank with bcu and we look forward to continuing to work on your behalf in the year ahead.



Brendon Comrie
Acting General Manager bcu

General Manager P&N Bank Report

As I write my first report as General Manager P&N Bank, I am so proud to have joined WA's only local customer-owned bank and one that truly lives and breathes its purpose of enriching the lives of our members and their communities.

It's been so rewarding to see how much our people truly care about our members, aiming to create moments that matter in every interaction they have. It's therefore not surprising that P&N's customer advocacy remained strong during the year, with nine out of 10 members recommending our services and products to friends and families.

Banking highlights

With a continued focus and investment in improving the experience that our members receive across our range of channels, enhancing our digital banking services has been a focus during the year. Changes to P&N's Pay&Save product now provides members with the ability to round up payments to the next \$5 or \$10, with the difference automatically saved into their P&N savings account.

Improvements were also made to P&N's website and mobile app accessibility to ensure all members receive the best experience online, regardless of their ability. We also launched a first home buyer hub that empowers new homeowners with information and tools to support their home buying journey.

With the Reserve Bank of Australia increasing the cash rate for the first time in over 10 years in May, we continue to focus on supporting current and future borrowers with the most competitive rates possible. We acknowledge the low cash rate environment over the past few years has particularly impacted depositors and we have ensured that our deposit rates offer the best possible value to those members.

As a customer-owned bank, we are committed to providing members with competitive products that meet their needs both now and into the future. This was acknowledged when P&N received the 2022 Mozo Experts Choice Award for Bank Accounts & Savings in the Pensioner Account and Small Business Exceptional Everyday Account award categories this year.

With the continued success of the Federal Government's First Home Loan Deposit Scheme (FHLDS) and New Home Guarantee, P&N was proud to help more than 310 first home buyers purchase their first home sooner through the Scheme. In July 2021, P&N member and first home-buyer Morgan shared his personal journey to homeownership through the FHLDS and P&N Bank, when he was visited by the Federal Minister for Housing at the time, the Hon Michael Sukkar MP who wanted to learn about Morgan's personal experience with the Scheme.

As part of our commitment to diversity and inclusion, we celebrated Chinese New Year for the first time, acknowledging the long-standing tradition of offering 'ang pow' red envelopes to members at our branches.

With our Environmental, Social and Governance (ESG) Strategy roadmap now a key focus for the Group, P&N made the decision during the year to move from an opt in to an opt out model for eStatements meaning that our members now automatically receive digital statements instead of paper statements. This has resulted in over 60% of members moving to eStatements, saving over one million pieces of paper and 300,000 envelopes every year.

Improvements to P&N's loan application turnaround times for brokers and their clients were implemented to create a better overall experience as outlined in the Chair/CEO Report. P&N's broker team was recognised for their efforts during the year when they were announced winner of the Mutual/Credit Union Lender Award at the 2022 Mortgage and Finance Association of Australia WA State Excellence Awards.





Taking care of our community

P&N's strong commitment to the WA community continued, with the Helping &nds giving program providing members with the opportunity to help individuals, families and groups in need. Since launching the grants program seven years ago, P&N has donated over half a million dollars to 300 individuals and 200 unique Western Australian community groups on behalf of members.

It was so pleasing to see another 40 deserving not-for-profit and community groups receive much-needed funding through the Helping &nds program during the year, such as North Perth-based LGBTIQ+ charity Rainbow Community House which offers fully subsidised counselling sessions for vulnerable people who otherwise could not afford counselling. These groups are such a vital part of our community, and we know this funding truly makes a difference in the lives of those they support.

On behalf of our members, P&N continued its support of key community partners including Manna, a local not-for-profit that distributes 5,000 breakfast meals to primary and secondary students throughout Perth every week as part of school-run breakfast programs. This year, our support of Lifeline assisted to fund the training of Telephone Crisis Support volunteers who are answering the growing number of calls being received year on year. Over the course of P&N's partnership with Lifeline, calls from help seekers to their 13 11 14 phone service have increased a staggering 89%.

As part of our ongoing connection to Variety WA, P&N was again able to support their Motor Mouth program which helps children who have limited speech and rely on augmentative and alternative communication (AAC) aids to express themselves. We also offered a helping hand to The Fathering Project's Armadale community program, supporting locals to navigate the challenges of life and parenting. The Fathering Project exists to inspire and equip dads and father figures to be the best parents they can be.

P&N was again a major sponsor of the 2021 WA Police Excellence Awards, which shine a light on the commitment of individual officers and teams who have made a significant contribution in the West Australian community. We greatly value P&N's ongoing partnerships with the WA Police Union and Crime Stoppers WA and look forward to continuing to work together in 2023.

In the spirit of bringing the community together, it was heart-warming to see more than 100 locals attended our Bunbury Community Day in August 2021 to celebrate the opening of our new-look Bunbury Branch.

Our people

While COVID-19 significantly impacted our members and workforce in the second half of the year, we worked extremely hard to keep all P&N branches open. I am proud of the resilience and flexibility our people have shown which ensured we were available when our members needed us most.

During the year, P&N launched new ways of working that provide our people greater work life balance through flexible working arrangements while continuing to uphold our commitment to members and being available when they need us. This included the launch of virtual and telephone home lending appointments.

Looking forward

As we look ahead, we are continuing our focus on improving the way we communicate with members while continuing to assess our products and services.

The P&N Bank team will continue to focus on creating exceptional experiences for our members. As always, I am very keen to hear from you on your experiences with P&N, what you love most about us and where we could improve. I encourage you to reach out at any time with your feedback.

I look forward to working on your behalf in the coming year to continue to promote the benefits of P&N's member-owned model.



Angela Newland
General Manager P&N Bank

Report of the Directors

Your Directors present their report on the financial statements of the Bank and the Group for the year ended 30 June 2022.

Corporate Governance

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

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

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

Directors

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

Stephen Craig TARGETT

(Chair) FAICD, MAIEx (Diploma)

Director with extensive experience running bank divisions, both globally and locally. Since his appointment as Chair in 2020, Mr. Targett has been an ex-officio member of the Audit Committee, Risk Committee and the Board Governance & Remuneration Committee.

Kellie Louise PROPERJOHN

APM GAICD (retired 13 December 2021)

Assistant Commissioner WA Police Force, over 30 years' service. Graduate Certificate of Business (Leadership), Associate Degree in Criminology and Justice (Policing), Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Advanced Diploma of Criminal Analysis, Advanced Diploma of Business Management, Diploma of Police Training (Criminal Investigation). Board Governance & Remuneration Committee member and Audit Committee member to 13 December 2021.

Edwin Roy BRADLEY

MBA BBus GAICD FCPA SF Fin (retired 27 October 2021)

Consultant with over 40 years' extensive experience in retail banking, strategic planning, corporate banking and risk management. Bachelor's degree in accounting and business law, post-graduate diploma in economics and financial management plus an MBA. Eight years' service as a Director of the Bank. Risk Committee Chair and Board Governance & Remuneration Committee member to 27 October 2021.

Julie Ann ELLIOTT

FAICD FCA FFin MBA (Exec) BEc

Experienced banking and finance executive with over 35 years' experience across retail banking, commercial banking, payments, wealth management, project management, accounting and audit. Bachelor of Economics and an Executive MBA. Experienced Director with over 20 years' experience. Audit Committee member and Board Governance and Remuneration Committee Chair.

Andrew Douglas HADLEY

BCom GAICD SFFin

CEO of the Bank since 2014 and Executive Director of the Bank since 2016, with over 25 years of broad financial services experience.

Through a related corporate entity, Mr Hadley holds 22 shares in the Police & Nurses Limited Capital Note.

Trevor Joel HUNT

BBus FAICD

Experienced retail banking and financial services professional with over 30 years operating in Australia in banking and senior executive positions and over 15 years as a non-executive director across banking, superannuation, financial planning and mortgage broking. Risk Committee Chair from 27 October 2021, Audit Committee Chair to 27 October 2021 and Board Governance and Remuneration Committee member from 13 December 2021.

Alan Craig PHILP

Dip Nursing & midwifery BA HSc Masters of Public Health GAICD (retired 27 October 2021)

Executive Group Manager, Prevention and Population Health, Health Systems, Policy and Research, ACT Health. 40 years in the nursing profession, and 44 years as a member of the Bank. Risk Committee member to 27 October 2021.

Louise Anne CLARKE

BBus GAICD

Executive and leadership coach with over 30 years' experience in the financial services sector as a Senior Executive. Risk Committee member, Board Governance and Remuneration Committee member and Nominations Committee Chair from 27 October 2021.

Gary Colin HUMPHREYS

GAICD AMP173

Senior Executive with over 20 years' experience operating large corporations as deputy CEO and COO. Nominations Committee Chair to 27 October 2021, Risk Committee member, Audit Committee member to 27 October 2021 and Audit Committee Chair from that date.

Monish PAUL

MAICD MBA, BBus (appointed 21 February 2022)

Professional with 20 years' experience shaping and executing corporate strategy and digital transformation across a range of industries both in the public and private sector. Audit Committee member and Risk Committee member from 21 February 2022.

Each Director holds one member share in the Bank.

Company Secretary**David Verran FEHLBERG**

BEc(Acc), LIB, MBA, GAICD

Company Secretary of the Bank since August 2021, Mr Fehlberg has more than 20 years' experience working in Australia and internationally, in governance, legal and risk roles.

During the year ended 30 June 2022: Ms Michele Ryan ceased to act as Company Secretary on 1 October 2021.

Composition and Meetings of the Board

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

- the Board comprises:
 - no more than six member elected directors, provided that at all times the Board is comprised of a majority of member elected directors;
 - no more than three board appointed directors; and
 - if the Board so determines, the Chief Executive Officer;
- the Board comprises members with an appropriate range of expertise, skills and qualifications;
- each Board member maintains their own skills relevant to the business of the Bank; and
- the Board conducts regular evaluations of its own and individual Board member's performance, with an independent evaluation at least every third year.

Report of the Directors

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2022 and the number of meetings attended by each Director.

Director	Directors' Meetings		Audit Committee Meetings		Risk Committee Meetings		Board Governance and Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
Member elected directors								
K L Properjohn ⁺	4	4	3	3	*	*	2	2
T J Hunt	11	11	4	4	7	7	4	4
A C Philp ⁺⁺	2	2	*	*	2	2	*	*
L A Clarke	11	11	*	*	7	6	6	6
G C Humphreys	11	11	5	5	7	7	*	*
M Paul ⁺⁺⁺	5	5	1	1	3	3	*	*
Board appointed directors								
S C Targett ^{**}	11	11	**	**	**	**	**	**
E R Bradley ⁺⁺⁺	2	2	*	*	2	2	1	1
J A Elliott	11	11	5	5	*	*	6	6
A D Hadley ^{***}	11	11	*	*	*	*	*	*

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

B Number of meetings attended.

+ Ms Properjohn ceased to be a Director on 13 December 2021.

++ Mr Philp ceased to be a Director on 27 October 2021.

+++ Mr Bradley ceased to be a Director on 27 October 2021.

++++ Mr Paul was appointed as a Director on 21 February 2022.

* Not a member of the relevant Committee.

** Mr Targett, as the Board Chair, is an ex-officio member of the Audit Committee, Risk Committee and Board Governance and Remuneration Committee.

*** During the year Mr Hadley was an attendee at each of the meetings of the Audit Committee, Risk Committee and Board Governance and Remuneration Committee.

The Nominations Committee also met twice during the year, chaired once by Mr Humphreys and once by Ms Clarke.

Director Induction Program

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

Directors' Remuneration

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

Audit Committee

The Board has established the Audit Committee to assist in the execution of its responsibilities. The Committee comprises at least 3 Board members. This Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to:

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

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

Risk Committee

The Board has established the Risk Committee to assist in the execution of its responsibilities. The Committee comprises at least 3 Board members. This Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to the establishment, monitoring, oversight and maintenance of the Bank's risk management framework. The Committee also monitors and oversees regulatory matters and operational, credit, market, capital and liquidity risk.

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

Board Governance and Remuneration Committee

The Board has established the Board Governance and Remuneration Committee to assist it in the execution of its responsibilities. The Committee comprises at least 3 Board members.

This Committee has written terms of reference, which outline its roles and responsibilities to enable it to assist the Board in relation to maintaining compliance with the requirements of the prudential standards, by providing informed feedback to the Board on its performance, to establish a framework to assist the Board with the assessment of the performance of each Director and the Chief Executive Officer and in relation to remuneration related practices and policies. An appraisal of the Board's performance, and of that of its Committees and Directors, is conducted annually, with an independent consultant engaged to facilitate the process at least every third year. The Chair of the Board through the Board Governance and Remuneration Committee is responsible for the annual assessment methodology of the Board's performance and that of each individual Board member, supporting ongoing alignment with the requirements of the prudential standards.

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

Nominations Committee

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

Group Risk Management

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

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

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

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

Ethical Standards

Board members are required to act in accordance with the Constitution, any Board approved Code of Conduct and Conflict of Interest and Transactions with Directors and their Related Parties Policy.

Any Board member who has a material personal interest in any matter that relates to the affairs of the Bank must disclose that interest under section 191 of the Corporations Act 2001 (Cth) and that Board member may not be present at a Board meeting considering that matter, or vote on that matter, unless permitted by section 195 of the *Corporations Act 2001 (Cth)*.

Review of Operations

The financial year was dominated by record low levels of interest rates. These low interest rates contributed to an above average increase in property prices across the country with strong competition amongst lenders. It is against this background that the Group delivered solid financial performance with underlying total loan growth up 9% and deposit growth up 5% for the year. The Group continued its investment in the transformation program and managed to reduce costs by 1%. This allowed the Group to increase underlying Profit After Tax from continuing operations by 15.3% to \$16.5m. Key highlights for the year includes the:

- Successful disposal of the last remaining non-core assets which was an exposure to property development in Two Rocks, WA.
- Successful \$75m Capital Note issuance in May 2022 which was oversubscribed by 1.4X which will help fund our digital transformation journey and continue to support our loan growth.
- \$350m retail mortgage backed securities issuance in November 2021.

Outlook

The RBA began raising the official cash rate in May 2022 and marks the start of the increasing interest rate cycle with the terminal rate expected to be above 2.5%. The increased interest rates are expected to help stem inflation growth but is likely to put strain on consumers through higher rent and mortgage repayments. The Group is well capitalised and holds sufficient provisions for credit losses.

Significant Changes

The Group issued 7,500 subordinated perpetual Capital Notes for \$75m during the year which are redeemable at the discretion of the Group on a single optional call date on 26 May 2027 (see note 28(f)). Should the securities not be redeemed they will remain perpetual.

There were no significant changes in operations during the period.

Principal Activities

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

Events Subsequent to the End of the Financial Year

There were no material subsequent events identified.

Environmental Regulation

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

Insurance of Officers

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

Auditors' Independence Declaration

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

Rounding of Amounts

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

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



S C TARGETT

Director



G HUMPHREYS

Director

Date: 29 August 2022
PERTH WA

Grant Thornton Audit Pty Ltd
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Melbourne VIC 3008
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Auditor's Independence Declaration

To the Directors of Police & Nurses Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Police & Nurses Limited and its controlled entities for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



D M Scammell
Partner – Audit & Assurance

Melbourne, 29 August 2022

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Statements of Profit or Loss

Year Ended 30 June 2022	Notes	Group		Bank	
		2022 \$000	2021 \$000	2022 \$000	2021 \$000
Interest revenue	3	162,656	171,583	182,536	192,734
Interest expense	3	26,181	41,299	54,057	70,301
Net interest income		136,475	130,284	128,479	122,433
Non-interest revenue	4	12,574	12,435	19,906	18,453
Gain on sale of financial assets held at amortised cost		2,223	3,852	2,223	3,852
Other income		1,064	788	968	788
Total non-interest revenue and other income		15,861	17,075	23,097	23,093
Total income		152,336	147,359	151,576	145,526
Credit impairment loss/(reversal)	5	(663)	(4,558)	(642)	(4,558)
Other expenses	6	129,826	131,048	129,119	128,701
Total expenditure		129,163	126,490	128,477	124,143
Profit before income tax from continuing operations		23,173	20,869	23,099	21,383
Income tax expense from continuing operations	7	6,616	6,505	6,588	6,450
Profit from continuing operations		16,557	14,364	16,511	14,933
Profit from discontinued operations, net of tax		-	2,328	-	625
Profit from operations		16,557	16,692	16,511	15,558
(Profit) / loss attributable to non-controlling interests		(11)	(536)	-	-
Profit attributable to members		16,546	16,156	16,511	15,558

The above Statements of Profit or Loss should be read in conjunction with the accompanying notes.

Statements of Other Comprehensive Income

Year Ended 30 June 2022	Notes	Group		Bank	
		2022 \$000	2021 \$000	2022 \$000	2021 \$000
Profit for the year		16,557	16,692	16,511	15,558
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Changes in the fair value of cash flow hedges	28(c)	8,906	(9)	8,906	(9)
Income tax relating to these items		(2,672)	3	(2,672)	3
<i>Items that will not be reclassified to profit or loss</i>					
Revaluation of land and buildings	28(e)	1,645	-	1,138	-
Changes in the fair value of equity instruments held at FVOCI	28(d)	1,678	40	1,678	(2)
Income tax relating to these items		(997)	(12)	(844)	-
Other comprehensive income for the period, net of tax		8,560	22	8,206	(8)
Total comprehensive income for the period		25,117	16,714	24,717	15,550
Total comprehensive income for the year is attributable to:					
Members of the Bank		25,106	16,178	24,717	15,550
Non-controlling interests		11	536	-	-
		25,117	16,714	24,717	15,550

The above Statements of Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statements of Financial Position

As at 30 June 2022	Notes	Group		Bank	
		2022	2021	2022	2021
		\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents	8	167,898	204,687	90,466	118,758
Receivables due from other financial institutions	9	1,217,277	1,243,940	1,217,277	1,243,940
Financial Assets held at FVOCI ⁽ⁱ⁾	10	10,744	9,073	10,384	8,713
Other assets	11	18,690	7,868	17,960	4,702
Current tax assets		3,419	758	3,304	1,532
Other financial assets held at AC ⁽ⁱⁱ⁾	12	1,119	21,007	575	2,479
Other financial assets held at FVPL ⁽ⁱⁱⁱ⁾	13	63	63	14,927	15,916
Loans and advances	14	5,839,939	5,364,282	5,839,939	5,364,282
Derivative financial instruments	16	16,653	391	15,730	391
Due from controlled entities	17	-	-	67,769	95,467
Property and equipment	18	26,992	29,443	25,133	28,052
Right-of-use assets	19	29,066	33,613	29,066	33,613
Investments in controlled entities	20	-	-	3,835	3,835
Intangible assets	21	13,254	4,599	13,254	4,599
Deferred tax assets	22	4,005	8,648	4,285	8,203
Total assets		7,349,119	6,928,372	7,353,904	6,934,482
Liabilities					
Members' deposits	23	5,747,374	5,472,468	5,751,546	5,474,466
Other payables	24	21,319	22,689	20,661	20,639
Provisions	26	8,452	7,770	8,452	7,623
Lease liabilities	19	34,674	38,853	34,674	38,853
Derivative financial instruments	16	8,176	747	8,176	747
Borrowings	25	968,782	924,582	574,261	705,985
Due to controlled entities	17	-	-	396,891	225,601
Total liabilities		6,788,777	6,467,109	6,794,661	6,473,914
Net assets		560,342	461,263	559,243	460,568
Members' funds					
Reserves	28	230,648	222,062	232,251	224,020
Retained earnings	28	104,242	87,731	102,303	85,829
Contributed equity	28	150,719	150,719	150,719	150,719
Other contributed equity	28	73,970	-	73,970	-
Non-controlling interests		763	751	-	-
Total members' funds		560,342	461,263	559,243	460,568

(i) Financial assets held at FVOCI: Financial assets held at fair value through other comprehensive income.

(ii) Other financial assets held at AC: Other financial assets held at amortised cost.

(iii) Other financial assets held at FVPL: Other financial assets held at fair value through profit or loss.

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

Year Ended 30 June 2022	Notes	Group					Non-controlling interests	Total equity
		Attributable to Members of Police & Nurses Limited						
		Reserves	Contributed equity	Other contributed equity	Retained earnings	Total		
		\$000	\$000	\$000	\$000	\$000		
Total member's funds as at 1 July 2020		222,006	150,719	-	71,646	444,371	670	445,041
Profit for the year		-	-	-	16,156	16,156	536	16,692
Other Comprehensive Income/(loss)		22	-	-	-	22	-	22
Total Comprehensive Income for the year		22	-	-	16,156	16,178	536	16,714
Adjustment		3	-	-	-	3	(455)	(452)
Transfer to Retained earnings		49	-	-	(49)	-	-	-
Amount transferred to share capital reserve		22	-	-	(22)	-	-	-
Changes in the fair value of financial assets held at FVOCI		(40)	-	-	-	(40)	-	(40)
Transactions with owners in their capacity as owners		34	-	-	(71)	(37)	(455)	(492)
Total member's funds (equity) as at 30 June 2021		222,062	150,719	-	87,731	460,512	751	461,263
Total member's funds as at 1 July 2021		222,062	150,719	-	87,731	460,512	751	461,263
Profit for the year		-	-	-	16,546	16,546	11	16,557
Other Comprehensive Income/(loss)		8,560	-	-	-	8,560	-	8,560
Total Comprehensive Income for the year		8,560	-	-	16,546	25,106	11	25,117
Issue of Capital Notes	28(f)	-	-	75,000	-	75,000	-	75,000
Capital Note issuance costs	28(f)	-	-	(1,030)	-	(1,030)	-	(1,030)
Transfer to Other Comprehensive Income		1	-	-	(10)	(9)	1	(8)
Amount transferred to share capital reserve	28(b)	25	-	-	(25)	-	-	-
Transactions with owners in their capacity as owners		26	-	73,970	(35)	73,961	1	73,962
Total member's funds (equity) as at 30 June 2022		230,648	150,719	73,970	104,242	559,579	763	560,342
Year Ended 30 June 2022	Notes	Bank				Total		
		Reserves	Contributed equity	Other contributed equity	Retained earnings			
		\$000	\$000	\$000	\$000		\$000	
Total member's funds (equity) as at 1 July 2020		224,006	150,719	-	70,336	445,061		
Profit for the year		-	-	-	15,558	15,558		
Other Comprehensive Income/(loss)		(8)	-	-	-	(8)		
Total Comprehensive Income for the year		(8)	-	-	15,558	15,550		
Transfer to Retained earnings		-	-	-	(43)	(43)		
Amount transferred to share capital reserve		22	-	-	(22)	-		
Transactions with owners in their capacity as owners		22	-	-	(65)	(43)		
Total member's funds (equity) as at 30 June 2021		224,020	150,719	-	85,829	460,568		
Total member's funds as at 1 July 2021		224,020	150,719	-	85,829	460,568		
Profit for the year		-	-	-	16,511	16,511		
Other Comprehensive Income/(loss)		8,206	-	-	-	8,206		
Total Comprehensive Income for the year		8,206	-	-	16,511	24,717		
Issue of Capital Notes	28(f)	-	-	75,000	-	75,000		
Capital Note issuance costs	28(f)	-	-	(1,030)	-	(1,030)		
Amount transferred to share capital reserve	28(b)	25	-	-	(37)	(12)		
Transactions with owners in their capacity as owners		25	-	73,970	(37)	73,958		
Total member's funds (equity) as at 30 June 2022		232,251	150,719	73,970	102,303	559,243		

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows

Year Ended 30 June 2022	Notes	Group		Bank	
		2022 \$000	2021 \$000	2022 \$000	2021 \$000
Cash flows from operating activities					
Interest received from loans		154,825	162,174	154,825	162,174
Bad Debts Recovered		437	421	437	421
Interest received from investments		7,831	9,409	27,711	30,560
Commissions and other income received		14,281	15,513	18,779	21,640
Borrowing costs - members		(20,075)	(36,444)	(20,076)	(36,444)
Net movement in interest rate swaps		3	(39)	926	42
Borrowing costs - Financial Institutions and SPVs		(6,106)	(4,855)	(33,981)	(33,857)
Interest Paid		(1,347)	(1,459)	(1,347)	(1,459)
Payments to employees and suppliers		(116,611)	(106,447)	(113,787)	(103,563)
Income taxes paid		(8,126)	(5,949)	(7,950)	(4,585)
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		25,112	32,324	26,057	34,929
(Increase)/decrease in operating assets					
Net (increase)/decrease in balance of loans and other receivables		(484,836)	(277,905)	(484,815)	(280,179)
Net decrease/(increase) in receivables due from other financial institutions		29,124	(429,796)	29,124	(429,796)
(Increase)/decrease in operating liabilities					
Net increase in balance of deposits		276,913	505,972	279,087	505,995
Net increase/(decrease) in borrowings from other financial institutions		44,200	206,336	(131,724)	291,928
Net cash inflow/(outflow) from operating activities	30	(109,487)	36,931	(282,271)	122,877
Cash flows from investing activities					
Dividends received		1,140	1,248	1,901	681
Proceeds from settlement of financial assets held at AC		16,471	-	-	-
Proceeds from sale of property and equipment		775	142	754	115
Gross proceeds from sale of assets held for sale		-	618	-	-
Gross proceeds from sale/(payments) for financial assets held at FVOCI		7	(49)	7	111
Payments for property and equipment		(3,369)	(7,696)	(3,360)	(7,423)
Payments for intangible assets		(9,857)	(4,065)	(9,857)	(4,065)
(Loans to)/repayments from controlled entities		-	-	197,003	(97,662)
Net cash inflow/(outflow) from investing activities		5,167	(9,802)	186,448	(108,243)
Cash flows from financing activities					
Principal element of lease payments		(6,412)	(6,343)	(6,412)	(6,343)
Member shares issued		120	115	120	115
Member shares redeemed		(147)	(137)	(147)	(137)
Proceeds from Capital Note net of issue costs		73,970	-	73,970	-
Net cash inflow/(outflow) from financing activities		67,531	(6,365)	67,531	(6,365)
Net increase/(decrease) in cash and cash equivalents held		(36,789)	20,764	(28,292)	8,269
Cash and cash equivalents at the beginning of the year		204,687	183,923	118,758	110,489
Cash and cash equivalents at the end of the year	8	167,898	204,687	90,466	118,758

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*. The Bank and the Group are for-profit entities for the purpose of preparing the financial statements. The presentation and functional currency is Australian dollars.

Compliance with IFRS

The Bank entity and consolidated Group entity financial statements and notes also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments) – measured at fair value
- assets held for sale – measured at the lower of carrying amount or fair value less cost of disposal
- certain property measured at fair value.

Comparatives

Comparative balances in the Statements of Profit or Loss and Statements of Financial Position have been reclassified where appropriate.

New and amended standards adopted by the Group

(i) Accounting policy for Internally Generated Intangible Assets

In April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to a Software as a Service (SaaS) arrangement. As a result, the Group has changed its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements, which are recognised within the Internal Projects Intangible

Asset category, (provided certain criteria are met). The nature and effect of the changes from changing this policy is described below in Note 1(ae).

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group as at 30 June each year. Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date at which control is transferred out of the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(t)).

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Investments in subsidiaries are carried at cost in the financial statements. All intercompany balances and transactions, including unrealised profits and losses arising from intra-Group transactions, have been eliminated fully on consolidation.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Profit or Loss and Statement of Financial Position respectively.

(ii) Joint arrangements

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

For joint operations, the Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These are incorporated in the financial statements under the appropriate headings.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated Statements of Financial Position.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Loan provisioning

The Group recognises

- specific provisions where enough evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows.
- expected credit losses (ECL's) based on a forward-looking model.

Refer to note 1(z) for further detail over the impairment methodology for all financial assets.

(d) Property and equipment

Plant & Equipment (equipment and leasehold improvements) are shown at historical cost less, where applicable accumulated depreciation and impairment losses. Property (Land and buildings) is shown at fair value less, where applicable accumulated depreciation and impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the Statements of Profit or Loss during the financial period in which they are incurred.

(i) Property

Freehold land and buildings are measured at their fair value, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation increase is credited to other comprehensive income unless it reverses a revaluation decrease on the same asset previously recognised in profit or loss. A revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase on the same asset in the asset revaluation reserve. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

It is the policy of the Group to have an independent valuation every three years, with annual appraisals being made by the directors.

Mixed use properties remain in Property and equipment unless there is significant third party use.

(ii) Depreciation

The depreciable amount of all property and equipment including buildings, but excluding freehold land, is depreciated over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of future improvements.

Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	40 years
Leasehold improvements*	3 - 10 years
Equipment	2 - 10 years

*or the expected life of the improvement whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statements of Profit or Loss.

An asset may be derecognised when its carrying amount is fully written down and the asset is no longer in use by the Group.

Any investment allowance applicable to depreciable assets is offset against income tax expense.

(e) Intangible assets

(i) Goodwill

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

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Intangible assets (continued)

(ii) Internally generated intangible assets

- (a) The Group recognises an internally generated intangible asset when:
- The separable asset is controlled by the Group;
 - it is probable that future economic benefits relating to that asset will flow to the Group; and
 - the costs can be measured reliably.

Control

The group controls the asset if it has the power to obtain the future economic benefits and to restrict access of others to those benefits, by legal or other right.

Probable Future Economic Benefits

Judgement by the Group is used to determine the probability of future economic benefits obtained primarily in the form of cost savings and additional capabilities of existing processes. This is assessed in line with the principles of AASB 136 *Impairment of Assets*.

Cost measurement

The Group assesses a cost as reliably measured if it can be quantified in an accurate manner.

The Group carries internally generated intangible assets at cost less accumulated amortisation and any impairment losses, if applicable. Costs capitalised include external direct costs of materials and services and direct payroll and payroll related costs of employees' time spent on activities that qualify for capitalisation.

These assets are amortised over the estimated useful lives (2 to 10 years) on a straight-line basis at a rate applicable to the expected useful life of the asset. Management assesses internally generated assets on a case by case basis. Any impairment loss is recognised in the Statements of Profit or Loss when incurred. An asset may be derecognised when its carrying amount is fully written down.

Research/Development Phase

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. An intangible asset will only be recognised to the extent the costs are incurred in the development phase and the specific activities qualify for capitalisation. The Group determines an

internally generated intangible asset project to be in the development phase where the project demonstrates:

- technical feasibility
- intention to complete
- usability
- usefulness to the Group
- availability of resources to complete
- can be measured reliably

Development phase costs often include cost of material/services and employee benefits used or consumed in generating the intangible asset.

(b) Work in Progress ("WIP")

All internally generated intangible assets are classified as WIP initially from when the eligible costs are first incurred. Once the asset is determined to have reached its minimum asset threshold, all costs incurred up to that point are then transferred to the respective intangible asset category. Assets are not amortised while classified as WIP. Judgement is used on an asset by asset basis to determine when the minimum asset threshold is met.

Management determines the minimum asset threshold is met when the asset is substantially complete (>80% of user functionality is completed) and it is available to all relevant users in the Production environment.

(c) Internal Projects

Internal Projects encompass assets that create cost savings, additional capabilities/efficiencies and or new sales for the Group. These projects are only recognised to the extent they meet the criteria in (a) above and are amortised from the minimum asset threshold date.

SaaS arrangements are generally cloud computing arrangements where a customer obtains access to hosted software by the software vendor, and depending on the circumstances, an intangible asset may be created.

SaaS related arrangements that qualify for intangible asset recognition and are directly linked to the specific Internal Projects future economic benefits, are capitalised to the Internal Projects asset category.

Software as a Service (SaaS) – internal project related

Where costs incurred to configure or customise SaaS platforms result in the creation of a

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Intangible assets (continued)

resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group with a “distinct” service (in addition to the SaaS access) are recognised as expenses when the supplier provides the services. When such costs incurred do not provide a “distinct” service, the costs are recognised as expenses over the duration of the SaaS contract.

(d) Computer software costs – non project related

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use • management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the minimum asset threshold is met and the asset is ready for use.

(f) Impairment of non-financial assets

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

(g) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. Temporary differences arising from the initial recognition of an asset or a liability is not recognised if they arose in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income tax (continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in the Statements of Profit or Loss are also recognised directly in the Statements of Profit or Loss. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(i) Uncertainty over Income tax treatment

Where there is uncertainty over the recognition and measurement of income tax treatments, the Group does an evaluation of each uncertain tax position to assess whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates.

(ii) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowances reduce income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(iii) Tax consolidation legislation

The Bank and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003, with the Bank as the head entity of the tax consolidated group (note 7(e)).

The head entity, the Bank, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in their own right.

In addition to its own current and deferred tax amounts, the Bank also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

(h) Employee benefits

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of the expected future payments to be made in respect of services provided by employees up to the balance sheet date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance sheet date on high quality corporate bonds with term to maturity and currency that match, as closely as possible, the estimated future cash outflows. Annual leave is accrued throughout the year.

(i) Interest

Interest on members' loans is calculated on an accrual basis using the effective interest method. For non-performing loans interest is charged to the account but is held as interest reserved and not recognised in the Statements of Profit or Loss. Interest on members' deposits is calculated on an accrual basis using the effective interest method and the accrual is included in the value of members' deposits disclosed in these financial statements.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

Cash and cash equivalents in the Statements of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less. Cash on hand, cash at bank and short-term deposits are stated at nominal value. Bank overdrafts are shown within borrowings in current liabilities in the Statements of Financial Position.

For the purposes of the cash flow statement, cash and cash equivalents are reported net of outstanding bank overdrafts.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. This is assumed to approximate their fair value due to their short-term nature. See notes 1(w) and 1(z) for further information about the Group's accounting policies for financial assets and related impairment.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue (inclusive of loan origination fees and transaction costs) is recognised as interest accrues using the effective interest method, which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Interest revenue relating to loan accounts with mortgage offsets, is presented on a net basis in revenue to reflect how the member is charged.

Dividend distributions from financial assets are recognised in the Statements of Profit or Loss when the right to receive payment is established.

Revenue from contracts with customers is recognised when a customer obtains control of the promised good or service and the Group satisfies its performance obligations under the contract. Revenue is allocated to each performance obligation. The Group considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the Group expects to be entitled to in exchange for transferring the promised good or service.

Revenue earned by the Group from its contracts with customers primarily consists of the following:

- Fee and commission income on a range of banking products and services platforms, wealth services, credit cards, financial planning fees, structuring fees, lending services and activities and income on structured products which are recognised when the related performance obligation is satisfied either over time or at a point in time.

(m) Fair value estimation

The fair value of assets and liabilities must be estimated for recognition and measurement and is determined according to a hierarchy that reflects the observability of significant market inputs. The three levels of the hierarchy are defined below:

Level 1 - Quoted market prices

The fair values of financial instruments that are traded in active markets are based on quoted market prices at the balance sheet date.

Level 2 - Valuation technique using observable inputs

The fair value of financial instruments not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Level 3 - Valuation technique using significant unobservable inputs

The unobservable inputs valuation technique is used where one or more of the significant inputs is not based on observable market data.

(n) Borrowings

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

Interest is accrued over the period it becomes due and is recorded as part of Borrowings.

(o) Borrowing costs

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

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Loan securitisation

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

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

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

(q) Other payables

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

(r) Loan origination fees and transaction costs

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

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the associated GST, unless the GST incurred

is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within Other Assets or Other Payables in the Statements of Financial Position.

(t) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair value.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Goodwill (if applicable) is stated after separate recognition of any identifiable intangible assets. It is calculated by the excess of the sum of (a) fair value of consideration transferred (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition date fair value of any existing equity interest in the acquiree over the acquisition date fair values of identifiable net assets.

No goodwill is recognised in the acquisition of a mutual entity. In a combination of mutual entities where only equity interests are transferred, the acquirer shall use the acquisition-date-fair-value of the acquiree's equity interests in place of the acquisition-date-fair-value of the consideration transferred.

Pursuant to the accounting standard AASB 3 *Business Combinations*, the receiving body in a combination of mutual entities, as approved under the Financial sector (Transfers of Business) Act 1999, all assets and liabilities are transferred to

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Business combinations (continued)

the receiving body and the net assets are added as a direct addition to the equity in its statement of financial position using the Contributed equity account (note 28).

Acquisition-related costs are expensed as incurred.

(u) Leases

The Group accounts for leases under AASB 16 and the Leases are recognised as a Right-of-use asset and a corresponding Lease liability at the commencement date, being the date the leased asset is available for use by the Group (note 19).

The Group leases various offices and branches. Rental contracts are typically made for fixed periods of 12 months to 10 years, but may have extension options.

Contracts may contain both lease and nonlease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any rental abatement
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the Right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the Lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

- fixed the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the Right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of leased IT equipment and small items of office furniture.

(v) Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provisions (continued)

value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(w) Financial assets

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets in the following measurement categories:

- measured subsequently at amortised cost; or
- measured subsequently at fair value (either through other comprehensive income or through profit or loss)

(i) Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using the effective interest method and net of any impairment loss, if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- are not designated at Fair Value through Profit or Loss.

(ii) Financial assets measured at fair value

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- are not designated at Fair Value through Profit or Loss.

For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income, in which case, gains and losses will never be reclassified to profit or loss, and no impairment may be recognised in net profit or loss. Dividends earned from such investments are recognised in net profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

(iii) Repurchase and securities lending agreements

Securities and commodities sold under an agreement to repurchase and securities subject to lending agreements continue to be recognised in the Statements of financial position and an associated liability is recognised for the consideration received.

Financial instruments sold under a repurchase agreement, under which substantially all the risks and rewards of ownership are retained by the Company, continue to be recognised on the Statements of Financial Position and the sale proceeds are recognised as a financial liability within borrowings. The Company simultaneously agrees to buy back the securities at a pre-agreed price on a future date. Over the life of the repurchase agreement, the Group recognises the difference between the sale price and the repurchase price and charge it to interest expense in the Statements of Profit or Loss using the effective interest method.

(x) Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivative liabilities, shall be subsequently measured at fair value.

(y) Derivatives

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value in line with market fluctuations. The unrealised gain or loss on remeasurement is immediately

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Derivatives (continued)

recognised in the Statements of Profit or Loss as an adjustment to interest expense, except where hedge accounting applies.

(i) Hedge accounting

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

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

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

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

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

(z) Impairment of financial assets

The Bank applies the simplified ECL approach to trade receivables, contract assets and lease receivables. The simplified ECL model used by the Group calculates the provision for ECL by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The credit

loss is the sum of these probability weighted outcomes. The ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

The three-stage model applies to Loans, Advances, other financial assets at amortised cost and receivables due from Financial Institutions on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk and exposures are assessed on either a collective or individual basis.

The collective provisions are calculated using an ECL model that determines potential losses from observing default and delinquency correlations in the loan book together with forward looking macro-economic variables.

The Group assesses on a forward-looking basis the ECL associated with all its Financial Assets carried at Amortised Cost and with its exposure arising from loan commitments and financial guarantee contracts. The Group recognises movements in ECL at each reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money, and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecast of future economic conditions.

Individually, the Bank applies Specific Provisions for impairment at an amount adequate to cover incurred credit related losses. The Group assesses, at each Balance Sheet date, whether one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Evidence of events that could have a detrimental impact on estimated future cash flows may include default, delinquency, bankruptcy or other observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions correlating with defaults. If there is evidence of these “loss events”, the amount of specific provision is measured as the difference between the loan’s carrying amount and the present value of any expected future cash flows.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Capital Notes

In accordance with Australian Prudential Regulation Authority's Basel III capital adequacy framework, the Group's Capital Note program forms part of the Group's Additional Tier 1 capital.

Nature of Capital Notes

The Capital Notes are issued as perpetual, non-cumulative, subordinated and unsecured instruments. The Group has the discretion to redeem the notes on a single option call date on the 5th anniversary of the issue. Should the securities not be redeemed they will remain perpetual.

Recognition and Measurement

The Capital Notes are classified as Equity within the Statements of Financial Position in accordance with the substance of the contractual terms of the instrument.

These instruments are initially recognised at fair value less charges associated with the issue of the instrument (net of deferred tax) and subsequently measured at amortised cost.

The capital notes carry a discretionary distribution which will be declared and payable quarterly in arrears. The distributions are treated as dividends and are recognised in retained earnings.

Any gains and losses relating to the Capital Notes are recognised in retained earnings, net of deferred tax.

(ab) Profit or loss from discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. A discontinued operation represents a separate major line of the business. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the posttax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal group(s) constituting the discontinued operation (see also Note 37).

(ac) Rounding of amounts

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

(ad) New accounting standards not yet adopted

There are no new accounting standards and interpretations that have been published and are not mandatory for 30 June 2022 reporting periods and have been adopted early by the Group.

(ae) Impact on adoption of new standards and changes in accounting policies

In April 2021 the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to a Software as a Service (SaaS) arrangement. As a result, the Group has updated its accounting policy in relation to internally generated intangible assets (note 1(e)). The timing and status of the Group's Transformation Program reached mobilisation phase in FY22. Therefore, this interpretation has impacted the results for FY22, with additional costs requiring to be expensed. The nature and effect of the changes from changing this policy is described below.

Impact of change in accounting policy

The change in accounting policy has been retrospectively applied. For the current year, \$1 million of costs that would previously have been capitalised as intangible assets (under the previous policy) were expensed, mainly in the employee benefits expense. Cash outflows of \$1 million were included in payments to suppliers and employees in the statement of cash flows that previously would have been included as payments for intangible assets.

Note, as the Transformation Program was in the Research phase (expensed) in FY21, there was no impact as a result of retrospectively applying this new accounting interpretation to intangible assets. Therefore, the comparative financial information for the year ended 30 June 2021 did not require restatement.

Notes to the Financial Statements

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Loan provisioning

Specific loan provisions are calculated for loans where enough evidence that one or more events associated with an exposure could have a determinantal impact on estimated future cash flows. These events are defined in note 1(aa) above. The Group has provided for all loans where there is a loss event and the security is less than the loan due, except where the loan repayments are secured by lenders mortgage insurance. Collective loan provisions are calculated based on the forward-looking ECL model as outlined in note 1(aa).

(ii) Internally Generated Intangible Assets

The Group carries its internally generated intangible assets at cost less any accumulated amortisation recognised in profit or loss.

The key assumptions used in the determination of the internally generated intangible assets are the following:

- determining whether cloud computing arrangements contain an intangible asset, meaning providing a resource the group can control;
- capitalisation of configuration and customisation costs in Internal Projects (which includes SaaS arrangements);
- estimate of useful lives for each internally generated intangible asset; and
- determination when the assets meets the minimum asset threshold to be moved from Work in Progress to its respective asset category.

How these costs are determined is set out in note 1(e).

(iii) Property development receivable

The property development receivable is carried at amortised cost. The carrying value is assessed for impairment at each reporting date and amended where there have been changes in the timing of expected future cash flows. These cash flows are estimated based on the expected number of future lot sales and discounted at a rate of equivalent corporate debt.

(iv) Estimated fair value of financial assets and liabilities

Interest rate swaps are considered a level 2 observable input valuation. The fair value is calculated as the present value of the future cash flows based on observable yield curves. For interest rate swaps qualifying as cash flow hedges, the effective portion of the gains and losses is posted to the cash flow hedge reserve within other comprehensive income and the ineffective portion is posted directly to the Statements of Profit or Loss. Gains and losses as a result of interest rate swaps that do not qualify as cash flow hedges are posted immediately to the Statements of Profit or Loss.

The fair value of unlisted equity securities is determined using level 3 unobservable valuation techniques that consider the financials of the company, historical share transactions and reference the performance to other similar investments. For the majority of financial assets and liabilities held at amortised cost, the fair values are not materially different to the carrying values unless otherwise disclosed in the notes.

(v) Fair value of assets and liabilities acquired in business combinations

Pursuant to the accounting standard AASB 3 *Business Combinations*, in an acquisition, the assets acquired and liabilities assumed are generally measured at their acquisition-date fair value.

The critical assumptions used in the calculation of fair value are outlined below:

Rates to discount cash flows of the various fixed rate products are to be sourced from the Bank's rates on offer to customers on a like for like basis as at acquisition date with the exception that where an observable rate is not readily available, the fair value was deemed to be equal to the carrying value.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has not made judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

Notes to the Financial Statements

3 OPERATING PROFIT

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Daily averages are used provided they are representative of the Group's operations during the year.

Year Ended 30 June 2022	Group					
	2022			2021		
Interest revenue and interest expense	Average balance \$000	Interest \$000	Average interest rate %	Average balance \$000	Interest \$000	Average interest rate %
Interest-earning assets						
Deposits with other banks/ADIs ⁽ⁱ⁾	1,149,301	7,831	0.68%	1,073,788	9,409	0.88%
Loans and advances ⁽ⁱⁱ⁾	5,609,200	154,825	2.76%	5,207,927	162,174	3.11%
	6,758,501	162,656	2.41%	6,281,715	171,583	2.73%
Interest-bearing liabilities						
Members' deposits ⁽ⁱⁱⁱ⁾	5,360,711	20,075	0.37%	5,116,071	36,444	0.71%
Borrowings from other banks/ADIs ⁽ⁱ⁾	956,567	6,106	0.64%	732,339	4,855	0.66%
	6,317,278	26,181	0.41%	5,848,410	41,299	0.71%

	2022	2021
Analysis of net interest income		
Net interest income	136,475	130,284
Average interest-earning assets	6,758,501	6,281,715
Net interest margin ^(iv)	2.02%	2.07%
Spread ^(v)	2.00%	2.02%

The fee income and expenses associated with loan origination have been recognised as part of net interest income.

- (i) Authorised Deposit Taking Institutions
- (ii) Interest accruing on mortgage offset accounts is presented on a net basis within interest revenue, according to the Group's revenue recognition policy.
- (iii) In this note, Members' deposits exclude wholesale deposits.
- (iv) Net interest margin represents net interest income as a percentage of the relevant average interest-earning assets.
- (v) Spread represents the difference between the comparable average interest rates earned and paid.

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
4 NON-INTEREST REVENUE				
Loan fee revenue	2,894	3,454	2,894	3,454
Financial services fees	2,848	1,779	2,700	1,779
Other fee revenue	16	19	16	19
Securitisation servicing fees	-	-	7,169	7,046
Insurance commissions	2,576	3,051	2,576	3,051
Other commissions	3,100	2,723	3,100	2,723
Revenue from sale of property developments	-	161	-	-
Dividend revenue	1,140	1,248	1,451	381
	12,574	12,435	19,906	18,453

Notes to the Financial Statements

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
5 CREDIT IMPAIRMENT LOSS/(REVERSAL)				
Receivables due from other financial institutions	(238)	(92)	(238)	(92)
Other financial assets held at AC	1,514	3,000	-	-
Loans and advances	(1,179)	(6,110)	(1,179)	(6,110)
Due from controlled entities	-	-	1,535	3,000
Undrawn credit commitments	(323)	(935)	(323)	(935)
Bad Debts Recovered	(437)	(421)	(437)	(421)
	(663)	(4,558)	(642)	(4,558)

CREDIT IMPAIRMENT LOSS/(REVERSAL) BY STAGES

Specific	2,814	3,221	2,835	3,221
Collective stage 1	(2,861)	(3,766)	(2,861)	(3,766)
Collective stage 2	(56)	(1,897)	(56)	(1,897)
Collective stage 3	(123)	(1,695)	(123)	(1,695)
Bad Debts Recovered	(437)	(421)	(437)	(421)
	(663)	(4,558)	(642)	(4,558)

OF WHICH RELATES TO LOANS AND ADVANCES

Specific	1,293	221	1,293	221
Collective stage 1	(2,623)	(3,674)	(2,623)	(3,674)
Collective stage 2	(56)	(1,897)	(56)	(1,897)
Collective stage 3	(123)	(1,695)	(123)	(1,695)
	(1,509)	(7,045)	(1,509)	(7,045)
Undrawn credit commitments	330	935	330	935
	(1,179)	(6,110)	(1,179)	(6,110)

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
6 Other Expenses				
Impairment of non financial assets	-	1,572	-	910
Finance costs	1,347	1,458	1,347	1,459
Depreciation and amortisation	13,041	11,918	13,017	12,350
Fees and commissions	14,118	12,908	13,869	12,676
Employee benefits expense	67,562	62,685	67,462	62,685
Information technology costs	13,541	14,538	13,513	14,537
Marketing costs	6,282	6,669	6,282	6,669
Other general and administration costs	13,189	18,281	12,887	16,396
Net (Gain)/loss on disposal or revaluation loss of property, plant and equipment	746	1,019	742	1,019
	129,826	131,048	129,119	128,701

Notes to the Financial Statements

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
7 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax expense/(benefit)	6,045	4,589	6,505	3,521
Deferred tax expense/(benefit)	510	2,637	(54)	3,169
Under/(over) provided for current tax in prior years	61	34	137	28
Income tax expense	6,616	7,260	6,588	6,718
Income tax expense is attributable to				
Profit from continuing operations	6,616	6,505	6,588	6,450
Profit from discontinuing operations	-	755	-	268
Income tax expense	6,616	7,260	6,588	6,718
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 22)	39	57	(525)	300
(Decrease)/Increase in deferred tax liabilities (note 27)	471	2,580	471	2,868
	510	2,637	(54)	3,168
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	23,173	23,954	23,099	22,276
Prima facie income tax calculated at 30% (2021: 30%)	6,952	7,186	6,930	6,684
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	68	22	68	22
Tax offset for franked dividends	(475)	(445)	(429)	(35)
Intragroup dividends	-	-	(135)	(90)
Fines and penalties	1	10	1	10
Other	9	335	16	106
	6,555	7,108	6,451	6,697
Prior year losses recouped				
(Over)/under provision in prior year, relating to:				
- Other	61	152	137	21
Income tax expense	6,616	7,260	6,588	6,718
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity or through OCI	-	-	-	-
Net deferred tax – debited/(credited)directly to equity, or through OCI (note 22)	3,228	(3)	3,076	(22)
(d) Franking credits				
Franking credits based on a tax rate of 30%	175,069	166,544	174,169	166,340
The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:				
(i) franking credits that will arise from the payment of the amount of the current tax liability, and				
(ii) franking debits that will arise from the refund receivable of the amount of the current tax asset.				

Notes to the Financial Statements

7 INCOME TAX EXPENSE (continued)

(e) Tax consolidation legislation

The Bank and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy on implementation of the legislation is set out in note 1(g). On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, the Bank. Under the terms of this agreement, the wholly-owned entities will fully compensate the Bank for any current tax payable assumed and are compensated by the Bank for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Bank under the tax consolidation legislation. The amounts receivable/payable is recognised as tax-related receivable or payable by the Bank (see note 17).

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

8 CASH AND CASH EQUIVALENTS

Cash on hand	4,838	5,612	4,838	5,612
Cash and deposits at call with ADIs	163,060	199,075	85,628	113,146
	167,898	204,687	90,466	118,758

The fair value of cash and cash equivalents are not materially different to the carrying amount due to the short-term nature of these instruments.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

9 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

Interest-earning deposits with ADIs	1,217,665	1,244,566	1,217,665	1,244,566
	1,217,665	1,244,566	1,217,665	1,244,566
Expected credit loss provision	(388)	(626)	(388)	(626)
	1,217,277	1,243,940	1,217,277	1,243,940

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

The ECL provision of \$388,000 (2021: \$626,000) belongs to stage 1 collective, accounts with arrears up to 29 days.

The fair value of receivables due from other financial institutions are \$1,209,925,000 (2021: \$1,245,209,000).

The Bank has pledged \$81,055,000 (2021: \$151,500,000) of receivables due from financial institutions as collateral as part of entering repurchase agreements with the Reserve Bank of Australia as at 30 June 2022. As a result, a portion of this Receivables due from other financial institutions balance is encumbered. Refer to Note 25 for further detail.

Notes to the Financial Statements

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

10 FINANCIAL ASSETS HELD AT FVOCI

Investment in Cuscal (a)	8,983	7,306	8,983	7,306
Investment in Indue Ltd	1,397	1,397	1,397	1,397
Investment in other shares	364	371	4	11
	10,744	9,073	10,384	8,713

(a) Investment in Cuscal – unlisted security

Cuscal is an unlisted public company. Under Cuscal's constitution there are no limitations as to who the Group may sell its shares to, however, Cuscal is primarily owned by mutual ADIs and trading in its shares is very limited and information on such trading is not publicly available. The Group has determined the fair value of its shares in Cuscal using level 3 unobservable fair value techniques based on the latest audited financial statements, dividend yields of similar investments and recent share transactions (note 1(m)).

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

11 OTHER ASSETS

Prepayments	4,780	3,664	4,780	3,634
Other receivables	13,910	4,204	13,180	1,068
	18,690	7,868	17,960	4,702

Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists. Other receivables includes transactions pending settlement.

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

12 OTHER FINANCIAL ASSETS HELD AT AC

Land and property development receivables	544	28,274	-	-
Other financial receivables	575	2,479	575	2,479
	1,119	30,753	575	2,479
Expected credit loss provision	-	(9,746)	-	-
	1,119	21,007	575	2,479

Expected credit loss provision

Opening balance	9,746	6,746	-	-
Expected credit loss provision provided for during the year	1,513	3,000	-	-
Expected credit loss provision written off during the year	(11,259)	-	-	-
Closing balance	-	9,746	-	-

Land and property development include \$544,000 (2021: \$28,274,000) receivable from Pindan Capital Two Rocks Pty Ltd in its personal capacity and as trustee for the Pindan Capital Two Rocks Trust (Receivers and Managers Appointed). Receivers and Managers were appointed to enforce our rights.

On 23 June 2022, the Pindan Capital Two Rocks Pty Ltd entity under Receivership sold the undeveloped property lot and the net proceeds were paid to the Group and applied against the Land and property development receivable outstanding.

As the material underlying security sold, it was deemed there was no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. The Group wrote-off the Expected Credit Loss provision against the Receivable (\$11,259,000), during the period. However, the Group is still actively pursuing our rights under the Guarantee and this amount is reflected in the ending balance of the Land and property development receivable at 30 June 2022.

A further expected credit loss provision of \$1,513,000 (2021: \$3,000,000) was made during the year.

Notes to the Financial Statements

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

13 OTHER FINANCIAL ASSETS AT FVPL

Investment in Securitisation Notes	-	-	14,927	15,916
Investment in Land and property development - Other	63	63	-	-
	63	63	14,927	15,916

The Bank holds Investments in securitisation notes, which are debt securities issued by securitisation trusts that are related entities.

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

14 LOANS AND ADVANCES

Home loans	5,397,665	4,946,801	5,397,665	4,946,801
Secured overdrafts	46,276	58,134	46,276	58,134
Personal loans	33,989	38,658	33,989	38,658
Overdraft & credit cards	39,517	42,857	39,517	42,857
Retail loans and advances	5,517,447	5,086,450	5,517,447	5,086,450
Commercial & property finance	314,420	279,027	314,420	279,027
Gross loans and advances	5,831,867	5,365,477	5,831,867	5,365,477
Effective interest rate adjustment *	14,518	7,968	14,518	7,968
Expected credit loss provision (a)	(6,446)	(9,163)	(6,446)	(9,163)
Net loans and advances	5,839,939	5,364,282	5,839,939	5,364,282

* The loans and advances taken on from BCCU Ltd in financial year 2020, were adjusted to reflect the fair value at the date of acquisition and this adjustment is recognised to interest income over the effective life of the loans.

- Home loans are secured by registered mortgages over residential properties.
- Secured overdrafts are revolving lines of credit secured by residential properties.
- Commercial and property finance loans are secured by registered mortgages over commercial, residential or non-residential properties.
- Personal loans are provided on a secured or unsecured basis and are predominantly secured by motor vehicles.
- Overdraft facilities and credit cards are revolving lines of credit and are unsecured.

In financial year 2022, the fair value of Loans and Advances was \$417,608,000 (2021: \$38,451,000) higher than net carrying value.

Notes to the Financial Statements

14 LOANS AND ADVANCES (continued)

The maturity tables are based on contractual terms.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
Time to maturity				
Not later than one year	162,567	176,446	162,567	176,446
One year to five years	121,701	93,589	121,701	93,589
Over five years	5,547,599	5,095,442	5,547,599	5,095,442
	5,831,867	5,365,477	5,831,867	5,365,477

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
Securitised Loans under management				
Pinnacle Series Trust 2013-T1	-	33,936	-	33,936
Pinnacle Series Trust 2014-SST	1,380,055	1,573,725	1,380,055	1,573,725
Pinnacle RMBS Warehouse Trust	42,571	59,413	42,571	59,413
Pinnacle Series Trust 2017-T1	91,342	131,744	91,342	131,744
Pinnacle Series Trust 2021-T1	261,333	-	261,333	-
	1,775,301	1,798,818	1,775,301	1,798,818

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

All trusts are consolidated as part of the Group (note 20). In accordance with AASB 10 *Consolidated Financial Statements*, the mortgages securitised in the trusts remain on the Statements of Financial Position of the Bank.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
(a) Total loan expected credit loss provision				
Specific	2,167	2,174	2,167	2,174
Collective stage 1	4,221	6,641	4,221	6,641
Collective stage 2	18	136	18	136
Collective stage 3	40	207	40	207
	6,446	9,158	6,446	9,158
of which relates to undrawn credit commitments	(1,005)	(1,166)	(1,005)	(1,166)
	5,441	7,992	5,441	7,996
(b) On balance sheet loan credited				
Opening balance	7,992	16,130	7,992	16,130
Bad debts previously provided for written off	(1,378)	(2,028)	(1,377)	(2,028)
Credit Impairment loss/(reversal) during the year	(1,173)	(6,110)	(1,174)	(6,110)
Closing balance	5,441	7,992	5,441	7,992

Notes to the Financial Statements

15 MOVEMENT IN EXPECTED CREDIT LOSS PROVISION

The table below represents the reconciliation from the opening balance to the closing balance of ECL provision.

	Group					
	Receivables due from financial institutions	Other financial assets held at AC	Loans and advances	Due from controlled entities	Undrawn credit commitments	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 30 June 2020	717	6,746	16,130	-	3,035	26,628
Credit Impairment loss/(reversal)	(92)	3,000	(6,110)	-	(935)	(4,137)
Amounts written off, previously provided for	-	-	(2,023)	-	(934)	(2,957)
Balance as at 30 June 2021	625	9,746	7,997	-	1,166	19,534
Credit Impairment loss/(reversal)	(238)	1,513	(1,178)	-	(323)	(226)
Amounts written off, previously provided for	-	(11,259)	(1,378)	-	159	(12,478)
Balance as at 30 June 2022	387	-	5,441	-	1,002	6,830

	Bank					
	Receivables due from financial institutions	Other financial assets held at AC	Loans and advances	Due from controlled entities	Undrawn credit commitments	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 30 June 2020	717	-	16,130	6,746	3,035	26,628
Credit Impairment loss/(reversal)	(92)	-	(6,110)	3,000	(935)	(4,137)
Amounts written off, previously provided for	-	-	(2,024)	-	(934)	(2,958)
Balance as at 30 June 2021	625	-	7,996	9,746	1,166	19,533
Credit Impairment loss/(reversal)	(238)	-	(1,178)	1,534	(323)	(205)
Amounts written off, previously provided for	-	-	(1,377)	(11,280)	159	(12,498)
Balance as at 30 June 2022	387	-	5,441	-	1,002	6,830

Underlying collective provisions are in line with the growth of the balance sheet and delinquency levels.

Economic conditions have improved through stronger GDP and record levels of low unemployment rates. This has however driven up inflation and property prices which has been the primary catalyst for the increase in the official cash rates from early 2022. To this end, the Group remains cautious and continues to monitor the economic conditions and delinquency levels.

Notes to the Financial Statements

15 MOVEMENT IN EXPECTED CREDIT LOSS PROVISION (continued)

Sensitivity of provisions for ECL to changes in forward looking assumptions

As described in Note 36(c), the Group applies three alternative 5-year macro-economic scenarios (Base, Upside and Downside scenarios) to reflect unbiased probability-weighted range of possible future outcomes in estimating the Group's total ECL.

Management reviews the model monthly and adjusts the macro-economic outlook as the Australian Bureau of Statistics and the Reserve Bank of Australia actuals and forecasts become available. Current adopted macroeconomic assumptions for the Base scenario within the model are:

- Unemployment will remain relatively stable at around 4.1% . WA and NSW unemployment forecasts are completed as PNL's lending activities are predominantly in these two states.
- GDP growth of 2% year on year is expected.

The Downside scenario is set relative to the Base scenario using macroeconomic conditions that represent plausible but less likely alternatives to the Base scenario. Assuming 100% weighting on the Base scenario and holding all other assumptions (including forward looking adjustments) constant the Group's provision for impairment would be approximately \$6,421,715 compared to \$6,446,528 provision for impairment recognised as at 30 June 2022. Assuming 100% weighting on the Downside Scenario and holding all other assumptions (including forward looking adjustments) constant the Group's total provision for impairment would be approximately \$6,571,425.

COVID-19 Support Measures

During FY21, the Group continued to support members impacted by COVID-19, largely through loan repayment deferrals for retail and commercial members. The compound interest was capitalised during the repayment pause, and after the repayment pause, the minimum monthly repayments were recalculated in order to repay the loan within the original repayment term. The repayment deferral arrangements were considered to be continuations of the existing loans and were therefore accounted as non-substantial loan modifications. No modification gain or loss was recognised as a result of the payment deferral arrangements.

Demand for COVID-19 Support during FY22 declined significantly with a relief program offered for a period of three months. The relief program offers loan repayment deferrals. The relief is offered to impacted members who have passed the eligibility criteria, confirming impacts due to the pandemic have resulted in reduced working hours or a loss of employment. There are currently no members on COVID-19 relief. Previous COVID-19 relief members returned to performing loans or are being managed in collections.

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2022

	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Group Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
	\$000	\$000	\$000	\$000	\$000
(a) LOAN AND ADVANCES					
Balance as at 30 June 2020	11,671	1,349	1,587	4,556	19,163
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	(1,565)	677	500	388	-
Transferred to Lifetime ECL - not credit impaired	137	(210)	56	17	-
Transferred to Lifetime ECL - credit impaired - collective provision	35	169	(423)	219	-
Transferred to Lifetime ECL - credit impaired - specific provision	37	48	182	(267)	-
Bad debts written off	-	-	-	(2,957)	(2,957)
Charge/(reversal of impairment) to income statement from continuing operations	(3,674)	(1,897)	(1,695)	221	(7,045)
Balance as at 30 June 2021	6,641	136	207	2,177	9,161
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	231	(82)	(49)	(100)	-
Transferred to Lifetime ECL - not credit impaired	(11)	35	(18)	(6)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(14)	(9)	23	-	-
Transferred to Lifetime ECL - credit impaired - specific provision	(3)	(6)	-	9	-
Bad debts written off	-	-	-	(1,206)	(1,206)
Charge/(reversal of impairment) to income statement from continuing operations	(2,623)	(56)	(123)	1,293	(1,509)
Balance at 30 June 2022	4,221	18	40	2,167	6,446

The table above also includes the allocation of the undrawn credit commitments.

(b) OTHER FINANCIAL ASSETS HELD AT AC

Balance as at 30 June 2020	-	-	-	6,746	6,746
Charge to income statement from continuing operations	-	-	-	3,000	3,000
Balance as at 30 June 2021	-	-	-	9,746	9,746
Impairment expense/(reversal)	-	-	-	1,513	1,513
Amounts written off, previously provided for	-	-	-	(11,259)	(11,259)
Balance at 30 June 2022	-	-	-	-	-

Other financial assets held at AC includes a loan to Pindan Two Rocks Pty Ltd in its personal capacity and as trustee for the Pindan Capital Two Rocks Trust (Receivers and Managers Appointed). The full loan is due and payable and Receivers were appointed to enforce our rights for non-payment. Refer to Note 12 for further detail on the impairment raised and the subsequent write-off in the financial year ended 30 June 2022.

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2022

	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Bank Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
	\$000	\$000	\$000	\$000	\$000
(c) LOAN AND ADVANCES					
Balance as at 30 June 2020	11,671	1,349	1,587	4,556	19,163
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	(1,565)	677	500	388	-
Transferred to Lifetime ECL					
- not credit impaired	137	(210)	56	17	-
Transferred to Lifetime ECL					
- credit impaired - collective provision	35	169	(423)	219	-
Transferred to Lifetime ECL					
- credit impaired - specific provision	37	48	182	(267)	-
Bad debts written off	-	-	-	(2,957)	(2,957)
Charge to income statement from continuing operations	(3,674)	(1,897)	(1,695)	221	(7,045)
Balance as at 30 June 2021	6,641	136	207	2,177	9,161
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	231	(82)	(49)	(100)	-
Transferred to Lifetime ECL					
- not credit impaired	(11)	35	(18)	(6)	-
Transferred to Lifetime ECL					
- credit impaired - collective provision	(14)	(9)	23	-	-
Transferred to Lifetime ECL					
- credit impaired - specific provision	(3)	(6)	-	9	-
Bad debts written off	-	-	-	(1,206)	(1,206)
Charge/(reversal of impairment) to income statement from continuing operations	(2,623)	(56)	(123)	1,293	(1,509)
Balance at 30 June 2022	4,221	18	40	2,167	6,446

The table includes the allocation of the undrawn credit commitments.

(d) DUE FROM/TO CONTROLLED ENTITIES

Balance as at 30 June 2020	-	-	-	6,746	6,746
Changes due to financial assets recognised in the opening balances that have:					
Charge to income statement from continuing operations	-	-	-	3,000	3,000
Balance as at 30 June 2021	-	-	-	9,746	9,746
Changes due to financial assets recognised in the opening balances that have:					
Impairment expense/(reversal)	-	-	-	1,534	1,534
Amounts written off, previously provided for	-	-	-	(11,280)	(11,280)
Balance at 30 June 2022	-	-	-	-	-

Due from/to controlled entities includes intercompany receivable from the Bank to P&N Landreach Pty Ltd. A further specific provision of \$1,534,000 was raised against this intercompany receivable this period. As the underlying asset in P&N Landreach Pty Ltd was partially settled during the period, it was deemed there was no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. The Bank forgave this debt and wrote-off the Expected Credit Loss provision against the intercompany receivable (\$11,280,000), during the period.

Notes to the Financial Statements

16 DERIVATIVE FINANCIAL INSTRUMENTS

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	Fair value \$000	Fair value \$000	Fair value \$000	Fair value \$000
(i) Fair value				
Derivative financial assets				
Interest rate swaps - fair value through profit or loss - assets	923	-	-	-
Interest rate swaps - held as cash flow hedges - assets	15,730	391	15,730	391
	16,653	391	15,730	391
Derivative financial liabilities				
Interest rate swaps - fair value through profit or loss - liabilities	926	-	926	-
Interest rate swaps - held as cash flow hedges - liabilities	7,250	747	7,250	747
	8,176	747	8,176	747

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	Notional Amount \$000	Notional Amount \$000	Notional Amount \$000	Notional Amount \$000
(ii) Notional amount				
Derivative financial assets				
Interest rate swaps - fair value through profit or loss - assets	27,993	-	-	-
Interest rate swaps - held as cash flow hedges - assets	431,000	65,000	431,000	65,000
	458,993	65,000	431,000	65,000
Derivative financial liabilities				
Interest rate swaps - fair value through profit or loss - liabilities	27,993	-	27,993	-
Interest rate swaps - held as cash flow hedges - liabilities	341,500	180,000	341,500	180,000
	369,493	180,000	369,493	180,000

(a) Terms and conditions

Interest rate swaps are used by the Group to manage exposure to interest rate risk. Where these swaps qualify for cash flow hedge accounting, the effective portion of any unrealised profit or loss is deferred to equity in the cash flow hedge reserve within other comprehensive income. Where interest rate swaps do not qualify for hedge accounting, the profit or loss is recognised directly in the Statement of Profit or Loss.

The Group pays fixed interest on swaps with a notional amount of \$558,993,000 (2021: \$185,000,000), on which it pays 0.11% to 3.70% interest (2021: 0.11% to 2.01%) and receives interest calculated at a variable rate on the notional amount. At balance sheet date, the Bank pays fixed interest on swaps with a notional amount of \$531,000,000 (2021: \$185,000,000), on which it pays 0.11% to 3.70% interest (2021: 0.11% to 2.01%) and receives interest calculated at a variable rate on the notional amount.

The Group receives fixed interest on swaps with a notional amount of \$269,492,000 (2021: \$60,000,000), on which it receives 0.19% to 2.59% interest (2021: 0.19% to 0.94%) and pays interest calculated at a variable rate on the notional amount. At balance sheet date, the Bank receives fixed interest on swaps with a notional amount of \$163,827,000 (2021: \$60,000,000), on which it receives 0.25% to 1.84% interest (2021: 0.19% to 0.94%) and pays interest calculated at a variable rate on the notional amount.

Amounts accumulated in other comprehensive income for cash flow hedges are recycled to the Statements of Profit or Loss when the hedged forecast transaction occurs. Underlying cash flows from cash flow hedges are discounted to calculate deferred gains and losses which are expected to occur during the life of the cash flow hedge.

Notes to the Financial Statements

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
Maturity period				
Less than one year	21	-	21	-
More than one year but less than two years	(2,349)	39	(2,349)	39
More than two years but less than five years	(3,985)	269	(3,985)	269
Five years or more	286	(11)	286	(11)
Net Deferred (gains)/losses	(6,027)	297	(6,027)	297

(b) Fair value hierarchy

The Group's interest rate swaps are classified using the fair value hierarchy level 2 observable inputs valuation techniques (note 1(m)). The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

17 DUE FROM/TO CONTROLLED ENTITIES

Due from controlled entities (assets)

Amounts receivable from controlled entities	-	-	2,824	28,938
Deferred securitisation receivable	-	-	64,945	76,275
	-	-	67,769	105,213
Expected credit loss provision (a)	-	-	-	(9,746)
	-	-	67,769	95,467

(a) Expected credit loss provision

Opening balance	-	-	9,746	6,746
Credit Impairment loss/(reversal)	-	-	1,534	-
Amounts written off, previously provided for	-	-	(11,280)	3,000
Closing balance – Expected credit loss provision	-	-	-	9,746

Due to controlled entities (liabilities)

Amounts payable to controlled entities	-	-	396,891	225,601
	-	-	396,891	225,601

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

As at 30 June 2022, amounts due to and from the Bank's self-securitisation facility (Pinnacle Series Trust 2014-SST) are presented net within deferred securitisation receivables as the Group has the right and intention to settle these on a net basis. The gross amounts due to the Pinnacle Series Trust 2014- SST were \$1,419,567,000 (2021: \$1,573,406,000) and the gross amounts due from the Pinnacle Series Trust 2014-SST were \$1,445,000,000 (2021: \$1,650,000,000).

The Bank has been granted a secured Term Funding Facility (TFF) by the Reserve Bank of Australia (RBA) for the amount \$251,189,000 (2021: \$251,189,000) (note 32). As at 30 June 2022, the Bank has drawn down \$199,934,000 (2021: \$249,780,000) against the RBA TFF. As a result, \$236,650,000 (2021: \$295,649,000) out of a total of \$1,283,000,000 (2021: 1,465,000,000) self-securitisation A Notes held, are encumbered.

Notes to the Financial Statements

17 DUE FROM/TO CONTROLLED ENTITIES (continued)

Pinnacle Series Trust 2013 - T1

The Bank exercised the clean up provision for the trust as outstanding loans fell below 10% of the original loans sold to the Group at origination.

Pinnacle Series Trust 2021 - T1

The Bank issued a \$350 million RMBS in October 2021 called the Pinnacle Series Trust 2021 - T1. The RMBS was issued via a public placement, with the majority of the issue being privately held. As per the market process, the Trust acquired the underlying mortgages by sale from the P&N balance sheet and a warehouse trust, the Pinnacle RMBS Warehouse Trust No 1, which was used to warehouse the mortgages during the sale.

The Trust is consolidated as part of the Group financials, however, the underlying mortgages no longer belong to the bank, and from a capital and income perspective, the mortgages are treated as off-balance sheet. The trust-issued notes are claimed by the note-holders on the underlying mortgages within the trust, but have been recognised as borrowings in the consolidated financial statements. The Bank received the full cash consideration for the sale of the mortgages in October 2021.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

18 PROPERTY AND EQUIPMENT

Land and buildings				
At fair value	9,100	8,869	7,250	7,473
Accumulated depreciation	-	(218)	-	(188)
	9,100	8,651	7,250	7,285
Leasehold improvements				
At cost	23,745	23,373	23,745	23,373
Accumulated depreciation	(12,220)	(10,039)	(12,220)	(10,039)
	11,525	13,334	11,525	13,334
Equipment				
At cost	13,245	12,913	13,235	12,839
Accumulated depreciation	(6,878)	(5,455)	(6,877)	(5,406)
	6,367	7,458	6,358	7,433
Total property and equipment	26,992	29,443	25,133	28,052

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

Year Ended 30 June 2022	Group				Bank			
	Land and buildings	Leasehold improvements	Equipment	Total	Land and buildings	Leasehold improvements	Equipment	Total
		\$000	\$000	\$000		\$000	\$000	\$000
Carrying amount at 1 July 2020	8,674	12,055	6,471	27,200	7,285	12,055	6,448	25,788
Additions	113	3,931	3,058	7,102	113	3,931	3,015	7,059
Disposals	-	(2)	(139)	(141)	-	(2)	(113)	(115)
Depreciation expense	(136)	(2,650)	(1,932)	(4,718)	(113)	(2,650)	(1,917)	(4,680)
Carrying amount at 30 June 2021	8,651	13,334	7,458	29,443	7,285	13,334	7,433	28,052
Carrying amount at 1 July 2021	8,651	13,334	7,458	29,443	7,285	13,334	7,433	28,052
Additions	93	1,707	1,570	3,370	93	1,707	1,561	3,361
Disposals	(870)	(286)	(365)	(1,521)	(870)	(286)	(340)	(1,496)
Revaluations	1,354	-	-	1,354	847	-	-	847
Depreciation expense	(128)	(3,230)	(2,296)	(5,654)	(105)	(3,230)	(2,296)	(5,631)
Carrying amount at 30 June 2022	9,100	11,525	6,367	26,992	7,250	11,525	6,358	25,133

Notes to the Financial Statements

18(a) REVALUATION OF LAND AND BUILDINGS

The revalued land and buildings consist of office properties in Australia. Management determined that these constitute one class of asset under AASB 13 Fair Value Measurement, based on the nature, characteristics and risks of the properties.

Fair value of the properties was determined using the income approach based on estimated rental value of the properties. Market rentals, outgoings and capitalisation rates are estimated by the independent valuer based on comparable transactions and industry data.

If revalued land and buildings were stated at historical cost, amounts would be as follows:

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2022 \$000
At cost	8,874	8,756	7,479	7,360
Addition	93	113	93	113
Accumulated depreciation	(314)	(218)	(261)	(188)
Disposal	(907)	-	(907)	-
Net book value	7,746	8,651	6,404	7,285

19 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amount recognised in the Statements of Financial Position

The Statements of Financial Position shows the following amounts relating to leases:

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Right-of-use assets				
Buildings	29,066	33,613	29,066	33,613
Net book value	29,066	33,613	29,066	33,613
Lease liabilities	34,674	38,853	34,674	38,853
	34,674	38,853	34,674	38,853

(ii) Amount recognised in the Statements of Profit or Loss

The Statements of Profit or Loss show the following amounts relating to leases:

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Depreciation charge of right-of-use assets (buildings)	6,144	5,996	6,144	5,996
Interest expense (included in finance cost)	573	749	573	749
Expense relating to outgoings and variable lease payments not included in lease liabilities (included in other general and administration costs)	1,177	1,214	1,177	1,214
Expense related to low value leases or short term leases, exempt from AASB 16 (included in other general and administration costs)	109	61	109	61
Total expenses related to leases	8,003	8,020	8,003	8,020

Notes to the Financial Statements

20 INVESTMENTS IN CONTROLLED ENTITIES

All controlled entities are incorporated or registered in Australia and are ultimately controlled by the Bank. The controlled entities are as follows:

Year Ended 30 June 2022

	Interests in Controlled Entities		Bank Value of Investment in Controlled Entities	
	2022	2021	Held by the Bank 2022	Held by the Bank 2021
	%	%	\$	\$
Members Holding Company Pty Ltd	100	100	73,773	73,773
P&N Landreach Pty Ltd	100	100	2,000,010	2,000,010
P&N Management Pty Ltd	100	100	60,000	60,000
National Home Loans Pty Ltd	100	100	61,500	61,500
Police & Nurses Financial Planning Pty Ltd	65	65	1,640,080	1,640,080
P&N Recruitment Pty Ltd	100	100	100	100
Pinnacle RMBS Warehouse Trust No 1	100	100	-	-
Pinnacle Series Trust 2013 - T1	100	100	-	-
Pinnacle Series Trust 2014 - SST	100	100	-	-
Pinnacle Series Trust 2017 - T1	100	100	-	-
Pinnacle Series Trust 2021 - T1	100	-	-	-
			3,835,463	3,835,463

The Bank's Investments in controlled entities are held at cost. For each entity, the carrying amount of the investments in controlled entities is tested for impairment in accordance with AASB 136 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of AASB 139 indicates that the investment may be impaired. In determining the value in use of the investment, the Group estimates:

- its share of the present value of the estimated future cash flows expected to be generated by the entity, including the cash flows from the operations of the controlled entity and the proceeds from the ultimate disposal of the investment; or
- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions both methods give the same result.

Notes to the Financial Statements

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
21 INTANGIBLE ASSETS				
Goodwill (i)				
At cost	-	-	-	-
Internal Projects (ii)				
At cost	11,149	14,749	11,149	14,749
Accumulated amortisation	(7,614)	(10,842)	(7,614)	(10,842)
	3,535	3,907	3,535	3,907
Computer Software (iii)				
At cost	2,552	2,562	2,552	2,562
Accumulated amortisation	(2,352)	(2,211)	(2,352)	(2,211)
	200	351	200	351
WIP - Intangible (iv)				
At cost	9,519	341	9,519	341
Accumulated amortisation	-	-	-	-
	9,519	341	9,519	341
Total intangible assets	13,254	4,599	13,254	4,599

Reconciliation of the carrying amounts of each class of intangible assets

(i) Goodwill				
Opening carrying amount	-	1,572	-	-
Impairment charge	-	(1,572)	-	-
Closing carrying amount	-	-	-	-
(ii) Internal Projects				
Opening carrying amount	3,907	2,551	3,907	2,551
Additions	679	4,036	679	4,036
Disposals	-	(1,181)	-	(1,181)
Amortisation charge *	(1,051)	(1,499)	(1,051)	(1,499)
Closing carrying amount	3,535	3,907	3,535	3,907
(iii) Computer software				
Opening carrying amount	351	496	351	496
Additions	-	28	-	28
Disposals	-	-	-	-
Amortisation charge *	(151)	(173)	(151)	(173)
Closing carrying amount	200	351	200	351
(iv) WIP - Intangible				
Opening carrying amount	341	1,836	341	1,836
Additions	9,857	2,541	9,857	2,541
Transfer	(679)	(4,036)	(679)	(4,036)
Amortisation charge *	-	-	-	-
Closing carrying amount	9,519	341	9,519	341
Total intangible assets	13,254	4,599	13,254	4,599

* The amortisation charge is included in depreciation and amortisation in note 6.

Notes to the Financial Statements

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

22 DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

Provisions for impairment on loans and other receivables	5,434	5,860	5,434	5,860
Derivative	2,141	199	2,141	201
Property and equipment	15	22	-	22
Lease liabilities	10,402	11,656	10,402	11,656
Provisions	2,536	2,333	2,536	2,287
Accruals	1,449	1,580	1,300	968
Capital Note	353	-	353	-
Other	229	515	503	708
	22,559	22,165	22,669	21,702
Offset from/to deferred tax liabilities (note 27)	(18,554)	(13,517)	(18,384)	(13,499)
Net deferred tax assets	4,005	8,648	4,285	8,203
Movements:				
Opening balance	22,165	22,386	21,702	22,383
Adjustment related to prior period	(8)	(185)	1	(403)
Adjusted opening balance	22,157	22,201	21,703	21,980
(Charged)/credited to the income statement (note 7)	(39)	(58)	525	(300)
Charged to equity (note 7) & (note 28(c))	441	22	441	22
Other	-	-	-	-
Closing balance	22,559	22,165	22,669	21,702
Unrecognised temporary differences:				
Unrecoverable losses not recognised, tax effected	600	600	-	-
	600	600	-	-

In a previous reporting period, P&N Landreach Pty Ltd's equity ownership of 2,000,000 units in the Pindan Capital Two Rocks Trust in its personal capacity and as trustee for the Pindan Capital Two Rocks Trust (Receivers and Managers Appointed) was revalued from \$2,000,000 to Zero. Due to uncertainty over the recoverability of associated deferred tax assets, management chose to record this as an unrecognised temporary difference.

Notes to the Financial Statements

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
23 MEMBERS' DEPOSITS				
Call deposits	3,207,209	2,929,951	3,211,381	2,931,949
Term deposits *	2,533,091	2,508,944	2,533,091	2,508,944
Retirement savings account deposits **	5,980	32,452	5,980	32,452
Withdrawable shares	1,094	1,121	1,094	1,121
	5,747,374	5,472,468	5,751,546	5,474,466

Interest is calculated on daily balance outstanding.

Details on maturity analysis for deposits are set out in note 36.

* The term deposits taken on from BCCU Ltd were adjusted to reflect the fair value at the date of acquisition and this adjustment is recognised to interest expense over the effective life of the deposits.

The fair value of Members' deposits for the financial year ended June 2022 were \$27,111,000 (2021: \$1,125,000) lower than the carrying value.

** During the financial period and after careful consideration, the Group Board decided to exit the Retirement Savings Account (RSA) business. The Group officially exited the RSA business on 27 July 2022, with nil RSA balances outstanding from that date.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	Number of shares	Number of shares	Number of shares	Number of shares
(a) Members' shares				
Number of \$10 shares (fully paid)	106,733	109,150	106,733	109,150
Number of \$10 shares (partially paid \$6)	4,105	4,190	4,105	4,190
Number of \$10 shares (partially paid \$2)	1,082	1,093	1,082	1,093
Number of \$0 shares	572	584	572	584
Number of \$10 on-call shares	54,856	44,877	54,856	44,877
	167,348	159,894	167,348	159,894
Movements:				
Opening number of shares	159,894	152,307	159,894	152,307
Additions through acquisition	-	-	-	-
New shares issued during the year	12,043	11,531	12,043	11,531
Resignations during the year	(4,589)	(3,944)	(4,589)	(3,944)
Closing balance	167,348	159,894	167,348	159,894

From the 2019 financial year, new members were offered on-call shares, meaning the member does not need to submit an upfront \$10 fee, however this fee is due and payable on demand.

Notes to the Financial Statements

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

24 OTHER PAYABLES

Other payables	21,319	22,689	20,661	20,639
	21,319	22,689	20,661	20,639

Other payables are normally settled within 12 months. Other Payables includes accrued expenses, outstanding claims and transactions pending settlement.

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

25 BORROWINGS

Secured by home loan portfolios	394,521	218,597	-	-
Unsecured	293,749	305,870	293,749	305,870
Term Funding Facility	200,463	250,120	200,463	250,120
Repurchase agreements	80,049	149,995	80,049	149,995
	968,782	924,582	574,261	705,985

As at 30 June 2022, the Bank has an outstanding amount of \$200,463,835 (2021: \$250,120,000) against the RBA Term Funding Facility (notes 17 and 32).

The Trust-issued notes have been recognised as borrowings in the Group financial statements.

Repurchase agreements represents securities sold under repurchase agreements with the Reserve Bank of Australia. The Bank has pledged \$81,055,000 (2021: \$151,500,000) of receivables due from financial institutions as collateral as part of entering repurchase agreements as at 30 June 2022.

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

26 PROVISIONS

Employee benefits (a)	7,349	6,917	7,349	6,770
Make good (b)	1,103	853	1,103	853
	8,452	7,770	8,452	7,623

(a) Provision for employee benefits

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

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

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

Within the next 12 months	5,780	5,317	5,780	5,218
Between one and two years	159	289	159	259
Later than two years	1,410	1,311	1,410	1,293
	7,349	6,917	7,349	6,770

Notes to the Financial Statements

26 PROVISIONS (continued)

(b) Provision for make good

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

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
Opening balance	853	653	853	653
Make good provided for during the year	250	200	250	200
Adjustment to the provision	-	-	-	-
Closing balance	1,103	853	1,103	853

Year Ended 30 June 2022	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
The Group expects the make good provisions to be paid out as follows:				
Within the next 12 months	249	139	249	139
Between one and two years	67	83	67	83
Later than two years	787	630	787	630
	1,103	853	1,103	853

Year Ended 30 June 2022	Consolidated		Police & Nurses Limited	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000

27 DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

Financial assets at FVOCI	1,650	1,147	1,632	1,129
Derivative	4,706	102	4,706	102
Property and equipment	3,130	1,671	2,978	1,671
Intangible assets	1,059	1,166	1,059	1,166
Right-of-use-assets	7,965	9,267	7,965	9,267
Other	44	164	44	164
	18,554	13,517	18,384	13,499
Offset to/from deferred tax assets (note 22)	(18,554)	(13,517)	(18,384)	(13,499)
Net deferred tax liabilities	-	-	-	-

Movements:

Opening balance	13,517	10,891	13,499	10,604
Adjustment related to prior period	897	28	897	27
Adjusted opening balance	14,414	10,919	14,396	10,631
Credited to the income statement (note 7)	471	2,580	471	2,868
Charge to the equity	3,669	18	3,517	-
Other	-	-	-	-
Closing balance	18,554	13,517	18,384	13,499

Notes to the Financial Statements

Year Ended 30 June 2022

	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
28 MEMBERS' FUNDS				
Reserves				
General reserve (a)	220,000	220,000	220,000	220,000
Share capital reserve (b)	1,728	1,702	1,728	1,702
Cash flow hedge reserve (c)	6,027	(207)	6,027	(207)
Financial asset held at FVOCI reserve (d)	1,741	567	3,700	2,525
Land and Buildings Revaluation held in FVOCI reserve (e)	1,152	-	796	-
Reclassification to retained earnings	-	-	-	-
	230,648	222,062	232,251	224,020
Retained earnings				
Balance at beginning of year	87,731	71,646	85,831	70,336
Profit for the year	16,546	16,156	16,511	15,558
Total available for appropriation	104,277	87,802	102,342	85,896
Amount transferred to/(from) OCI	(10)	(49)	(14)	(43)
Amount transferred to share capital reserve (b)	(25)	(22)	(25)	(22)
Balance at end of year	104,242	87,731	102,303	85,831
Contributed equity				
Balance at beginning of year	150,719	150,719	150,719	150,719
Balance at end of year	150,719	150,719	150,719	150,719
Other contributed equity				
Balance at beginning of year	-	-	-	-
Issue of Capital Notes (f)	73,970	-	73,970	-
Balance at end of year	73,970	-	73,970	-

(a) General reserve

The general reserve represents an historical transfer from retained earnings.

Year Ended 30 June 2022

	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
(b) Share capital reserve				
Balance at beginning of year	1,703	1,680	1,703	1,680
Transfer from retained profits	25	23	25	23
Balance at end of year	1,728	1,703	1,728	1,703

Nature and purpose of share capital reserve

The share capital reserve reflects the share capital created on redemption of members' withdrawable shares. Under section 254K of the *Corporations Act 2001*, these redemptions must be made from retained profits. This reserve is also eligible to be included as Tier 1 capital.

Notes to the Financial Statements

28 MEMBERS' FUNDS (continued)

Year Ended 30 June 2022

	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
(c) Cash flow hedge reserve				
Balance at beginning of year	(207)	(201)	(207)	(201)
Revaluation of cash flow hedge instruments	8,782	(60)	8,782	(60)
Cash flow hedges recycled to income statement	92	43	92	43
Ineffective gains recognised in the income statement	32	8	32	8
Tax effect of revaluations (note 22 and 27)	(2,672)	3	(2,672)	3
Changes in the fair value of cash flow hedges, net of tax	6,234	(6)	6,234	(6)
Balance at end of year	6,027	(207)	6,027	(207)

Nature and purpose of hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in note 1(y). Amounts are reclassified to profit or loss when the associated hedge transaction affects profit or loss.

Year Ended 30 June 2022

	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
(d) Financial assets held at FVOCI reserve				
Balance at beginning of year	567	527	2,525	2,525
Revaluation increase for the year	1,678	57	1,678	-
Revaluation decrease for the year	(10)	(49)	(14)	(49)
Amount transferred (to)/from Retained Earnings	10	49	14	49
Tax effect of revaluations	(504)	(17)	(503)	-
Changes in the fair value of financial asset, net of tax	1,174	40	1,175	-
Balance at end of year	1,741	567	3,700	2,525

Nature and purpose of financial asset held at FVOCI reserve

The reserve is used to record gains and losses resulting from movement in the fair value of Financial assets held at FVOCI (note 10).

Year Ended 30 June 2022

	Group		Bank	
	2022 \$000	2021 \$000	2022 \$000	2021 \$000
(e) Land and Buildings Revaluation held in FVOCI reserve				
Balance at beginning of year	-	-	-	-
Revaluation of land and buildings	1,645	-	1,138	-
Tax effect of revaluations	(493)	-	(342)	-
Balance at end of year	1,152	-	796	-

Nature and purpose of Land and Buildings Revaluation held in FVOCI reserve

The reserve is used to record gains resulting from the revaluation of the land and buildings held at Fair Value, in line with the Group Accounting Policy (Note 1(d)). Refer to Note 18 for revaluations recorded during the financial period.

Notes to the Financial Statements

28 MEMBERS' FUNDS (continued)

Year Ended 30 June 2022

	Group			
	2022	2022	2021	2021
	No.	\$000	No.	\$000
(f) Capital Notes				
Balance at beginning of year	-	-	-	-
Issue of Capital Notes	7,500	75,000	-	-
Issue costs	-	(1,471)	-	-
Deferred Tax	-	441	-	-
Balance at end of year	7,500	73,970	-	-

Year Ended 30 June 2022

	Bank			
	2022	2022	2021	2021
	No.	\$000	No.	\$000
Capital Notes				
Balance at beginning of year	-	-	-	-
Issue of Capital Notes	7,500	75,000	-	-
Issue costs	-	(1,471)	-	-
Deferred Tax	-	441	-	-
Balance at end of year	7,500	73,970	-	-

Capital Note - additional Tier 1 Capital

On 26 May 2022, the Group issued \$75 million of Police & Nurses Limited Capital Notes (PNL Capital Notes).

The securities are perpetual, non-cumulative, subordinated and unsecured notes. The Capital Notes were recognised at fair value on acquisition less issuance costs, net of deferred tax.

The face value of the Capital Notes on issue is \$75 million at a price of \$10,000 per note. They qualify as Additional Tier 1 Capital of the Bank under Basel III as implemented by APRA.

The principal terms of the Capital Notes are described below:

- The Capital Notes are \$75 million subordinated perpetual floating rate notes, issued 26 May 2022 with an optional call date on 26 May 2027.
- Capital Notes are undated with no maturity and, unless a tax event or regulatory event occurs, are only redeemable at the option of the Bank on or after the fifth anniversary of the date of issue, subject to regulatory approval.
- The Bank may only redeem the Capital Notes if it has received APRA's prior written approval (which may or may not be given).
- Capital Notes pay quarterly floating rate non-cumulative distributions, at the discretion of the Bank. The distribution rate will be based on the floating 3-month Bank Bill Swap Rate.
- Capital Notes are convertible to Mutual Capital Instruments (MCIs) on a non-viability event, or may be written-off on a nonviability trigger event, as determined by APRA.
- In a winding up of the Bank, if the Capital Notes have not been converted to MCIs or written-off on account of a nonviability trigger event, they will rank for payment:
 - Ahead of common equity;
 - Equally without any preference amongst themselves for each series and with the holders of equal ranking instruments; and
 - Behind the claims of senior creditors of the Bank.

29 DIVIDENDS

No dividends have been paid or declared since the start of the financial year (2021: \$nil) with respect to the perpetual Capital Notes.

Notes to the Financial Statements

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

30 NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of the operating profit after tax to the net cash flows from operations

Profit after income tax	16,557	16,692	16,511	15,558
Depreciation and amortisation	13,041	11,933	13,017	12,350
Credit impairment (reversal)/ loss	(225)	(4,137)	(204)	(4,137)
Bad debts recovered	(437)	(421)	(437)	(421)
Revaluation loss of land and buildings	(291)	-	(291)	-
Loss/(Gain) on disposal of property and equipment	746	(1,790)	742	1,019
Dividend received	(1,140)	(1,248)	(1,901)	(681)
Increase/(decrease) in provisions	683	119	830	201
(Increase)/ decrease in investment	(7)	49	7	112
Increase in loans	(484,836)	(277,905)	(484,815)	(280,179)
(Decrease)/increase in net borrowings from other financial institutions	44,200	206,336	(131,724)	291,928
Increase in interest earning investments	29,124	(429,796)	29,124	(429,796)
Decrease/(increase) in other receivables	18,012	(30)	(12,125)	1,887
Increase/(decrease) in member deposits	276,913	505,972	279,087	505,995
Increase/(decrease) in interest rate swaps	3	(39)	926	42
(Decrease)/increase in accrued expenses and other payables	(22,026)	7,618	10,929	7,557
Increase/(decrease) in current tax liabilities	-	-	(1,777)	(1,654)
(Increase)/(decrease) in deferred tax asset	(394)	522	(966)	980
Increase/(decrease) in deferred tax liabilities	1,943	2,367	1,942	2,588
(Increase)/decrease in sundry debtors and prepayments	(1,116)	(478)	(1,146)	(472)
(Increase)/decrease in Financial Assets held at FVTPL	(237)	1,167	-	-
Net cash (outflow)/inflow from operating activities	(109,487)	36,931	(282,271)	122,877

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the periods presented.

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

Net debt

Cash and cash equivalents	167,898	204,687	90,466	118,758
Borrowings - repayable within one year (including overdraft)	(412,182)	(502,332)	(383,957)	(455,869)
Borrowings - repayable after one year	(556,600)	(422,250)	(190,304)	(250,116)
Net Debt	(800,884)	(719,895)	(483,795)	(587,227)
Cash and liquid investments	167,898	204,687	90,466	118,758
Gross debt - fixed interest rates	(574,261)	(705,985)	(574,261)	(705,985)
Gross debt - variable interest rates	(394,521)	(218,597)	-	-
Net Debt	(800,884)	(719,895)	(483,795)	(587,227)

Notes to the Financial Statements

30 NOTES TO THE CASH FLOW STATEMENTS (continued)

Year Ended 30 June 2022	Other assets	Liabilities from financing activities		Total
	Cash	Borrowings due < 1 year	Borrowings due > 1 year	
	\$000	\$000	\$000	\$000
Group				
Net debt as at 1 July 2020	183,923	(427,759)	(290,487)	(534,323)
Cash flows	20,764	(74,573)	(131,763)	(185,572)
Net debt as at 30 June 2021	204,687	(502,332)	(422,250)	(719,895)
Net debt as at 1 July 2021	204,687	(502,332)	(422,250)	(719,895)
Cash flows	(36,789)	90,150	(134,350)	(80,989)
Net debt as at 30 June 2022	167,898	(412,182)	(556,600)	(800,884)
Bank				
Net debt as at 1 July 2020	110,489	(354,071)	(59,986)	(303,568)
Cash flows	8,269	(101,798)	(190,130)	(283,659)
Net debt as at 30 June 2021	118,758	(455,869)	(250,116)	(587,227)
Net debt as at 1 July 2021	118,758	(455,869)	(250,116)	(587,227)
Cash flows	(28,292)	71,912	59,812	103,432
Net debt as at 30 June 2022	90,466	(383,957)	(190,304)	(483,795)

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000

31 EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance sheet date but not provided for

- payable not later than one year	1,246	661	1,246	661
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(b) Variable rental outgoings

- not later than one year	1,060	1,062	1,060	1,062
- later than one year and not later than five years	3,399	3,538	3,399	3,538
- later than five years	1,879	2,906	1,879	2,906

Aggregate contractual obligation for future variable outgoings - not recognised as a liability	6,338	7,506	6,338	7,506
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Significant leasing arrangements

As at 30 June 2022, the Bank has two significant leasing arrangements in place. The lease arrangement for the Perth head office at 556 Wellington Street, Perth, which expires 30 November 2029 and the lease arrangement for the Coffs Harbour Office at 35-61 Harbour Drive, Coffs Harbour which expires 23 September 2028. Each of these lease arrangements has one option for renewal for a five (5) year term.

Notes to the Financial Statements

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$000	\$000	\$000	\$000

32 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Credit related commitments approved but undrawn loans and credit limits

846,955	793,297	846,955	793,297
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The Bank has significant service contracts with Cuscal Limited and Indue. These entities provide the Bank with rights to the VISA card systems in Australia and provide settlement services with other financial institutions for ATM and VISA card transactions, BPay, cheque processing, NPP and Direct Entry transactions.

The Bank has entered the following financial arrangements with Cuscal:

- overdraft of \$3,000,000 (unused as at 30 June 2022).
- lodged a settlement security deposit of \$21,400,000 under the Standard Terms and Conditions.
- lodged an overdraft security deposit of \$3,000,000 under the Standard Terms and Conditions.

The Bank has entered the following financial arrangements with Indue:

- overdraft of \$1,250,000 (unused as at 30 June 2022).
- lodged a settlement security deposit of \$50,000 under the Standard Terms and Conditions.

The Bank has been granted secured term funding facilities (TFF) by the RBA for the amounts of \$153,127,000 and a supplemental allowance of \$101,396,000. The facilities are 3-year fixed rate facilities priced at 0.25% and 0.10% respectively, drawable up to the end of June 2021. As at 30 June 2022, the Bank had outstanding amounts of \$199,934,348.

The Bank has issued guarantees to support the obligations of certain members. The guarantees are for limited amounts and limited terms. Security is taken from the member whose obligation is guaranteed in accordance with the Bank's lending policies. The maximum value of those liabilities was \$1,860,000 (2021: \$1,896,000). Management and Directors are not aware of any claims, either current or pending, in relation to those guarantees.

Year Ended 30 June 2022

Group		Bank	
2022	2021	2022	2021
\$	\$	\$	\$

33 KEY MANAGEMENT PERSONNEL DISCLOSURES

Total key management personnel remuneration	6,694,873	5,167,526	6,694,873	5,167,526
Short-term employee benefits	6,194,032	4,257,392	6,194,032	4,257,392
Post-employment benefits	378,935	298,853	378,935	298,853
Other long-term benefits	7,078	1,921	7,078	1,921
Termination benefits	114,828	609,360	114,828	609,360
	6,694,873	5,167,526	6,694,873	5,167,526

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

As members of the Bank, the key management personnel and their related entities have available to them all of the services under normal member terms and conditions.

The employee banking product offer has been designed to offer tangible benefit to being a PNL employee. Employee product rates will be controlled via a discount to the indexed rate of the product which will ensure the organisation retains control over pricing changes as well as the ability to revert interest rates to the normal member rate when employees leave PNL.

As employees of the Bank, key management personnel that are not Directors can access these discounts. The terms and conditions in respect of all loans to key management personnel and their related entities have not been breached. All key management personnel and their related entities have placed deposits with the Bank during the year under normal member terms and conditions.

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

Notes to the Financial Statements

Year Ended 30 June 2022

	Bank	
	2022	2021
	\$	\$
33 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)		
Loans outstanding to key management personnel and their related entities:		
Total loans	7,527,052	6,741,692
Of which, loans under normal member terms and conditions	6,859,227	5,511,377
Loan advances	3,872,873	1,957,859
Loan repayments	764,961	2,090,385
Interest on loans	189,906	114,283
Loans outstanding to key management personnel and their related entities:		
Total discounted loans	667,696	1,230,315
Of which, unsecured loan balance	-	-
Loan advances	-	116,414
Loan repayments	58,857	180,053
Interest on loans	797	533
Outstanding deposits held by key management personnel and their related entities:		
Balance of deposits	1,460,542	1,432,712
Additional deposits	4,353,316	10,127,347
Withdrawals	4,675,130	10,159,980
Interest on deposits	380	3,047

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
34 AUDITOR'S REMUNERATION				
(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity - Grant Thornton				
- statutory financial reports audit services	238,040	238,040	238,040	238,040
- other assurance services	138,496	73,576	103,872	44,362
	376,536	311,616	341,912	282,402
Other auditors				
- statutory financial reports audit services	3,246	12,335	-	-
	379,782	323,963	341,912	282,402
(b) Remuneration for other services:				
Auditor of the parent entity - Grant Thornton				
- taxation advice	75,680	95,688	75,680	89,688
- consulting	8,693	-	8,693	-
	84,373	95,688	84,373	89,688
Total auditor's remuneration	464,155	419,651	426,285	372,090

Notes to the Financial Statements

35 RELATED PARTY DISCLOSURES

The Bank charges its controlled entities for certain costs.

The Bank acts as banker for some of the subsidiaries in the Group, with cash transactions being undertaken on behalf of the subsidiaries and adjusted for through amounts payable/receivable to/from the Bank. All intercompany balances, except for balances with securitisation trusts, are non-interest bearing. Some subsidiaries maintain separate deposit accounts with the Bank under normal commercial terms.

The Bank holds Investments in Securitisations which are issued by related securitisation trusts (note 13). Other balances with related entities are recorded in note 17.

The Bank transacted with its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in note 7.

Financial Instrument transactions of KMPs (including close family members or entities controlled, jointly controlled, or significantly influenced by them or any entity over which any of these family members or entities held significant voting power) occur in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees. At 30 June 2022, the KMPs held 50 shares of the PNL Capital Note. During the period, they received nil distributions from these Capital Notes.

Year Ended 30 June 2022

	Bank	
	2022	2021
	\$000	\$000

Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the Group:

Interest revenue	20,055	21,298
Interest expense	29,945	32,882
Securitisation service fee revenue	7,169	7,046
Dividend revenue	450	300
Other income	59	540
Aggregate amounts receivable from entities in the Group at balance sheet date	67,769	95,467
Aggregate amounts payable to entities in the Group at balance sheet date	396,891	225,601

36 FINANCIAL RISK MANAGEMENT

The Bank and the consolidated Group have exposure to the following risks from their use of financial instruments:

- market risk
- liquidity risk
- credit risk

The Board of Directors has overall responsibility for the establishment and oversight of the Risk Management Framework (**RMF**). The Board has established the Risk Committee, which is responsible for the objective review and oversight of all types of risks relevant to the Group by overseeing the design, implementation, and operation of the RMF, commensurate with the risks faced by the Group. In particular, the Risk Committee also reviews and makes recommendations to the Board on the Risk Appetite Statement (**RAS**), participates in the Internal Capital Adequacy Assessment process, reviews all key risk frameworks and policies, and monitors and reports to the Board on new and emerging risks.

The Risk Committee also monitors management compliance with the Group's risk management policies and procedures and is assisted in its oversight role by internal auditors. The internal auditors undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and / or Risk Committee.

Risk management policies are established to identify and understand the risks faced by the Group, to set appropriate risk limits and controls, and to ensure adherence with the frameworks detailed within the relevant policies. Risk management policies and systems are reviewed regularly in alignment with changes in market conditions and / or the Group's activities. Training, policies, and procedures support the Group's objective of maintaining a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies

The Group defines its market risk exposure as the risk of the change in the fair value of future cash flows from banking activities due to changes in market determined rates. The Group's only market risk exposure is to changes in interest rates as the Group does not transact in foreign currencies, commodities or equity products as part of its normal banking operations. The interest rate risk exposures arises out of normal banking activities.

The Group does not undertake trading activities, and manages its market risk exposure as Interest Rate Risk in the Banking Book, or IRRBB.

The IRRBB risk is managed through the utilisation of interest rate swaps, which reduces repricing risk. The Group uses these interest rate swaps to manage exposures as part of its interest rate risk hedging strategy.

The Group has a defined governance framework for market risk management and measurement, which sets Board approved limits. The Group applies a 'Value at Risk' methodology (VaR) to estimate the market risk of its asset and liability portfolio, earnings at risk analysis (EAR), and interest rate sensitivity analysis (EVE). The Group further monitors change in value (PVbp) measures to manage market risk exposure on an ongoing basis.

The Group calculates its VaR, EAR and EVE exposures and compares these exposures to the related limits set and approved by the Board.

The Group structures the levels of market risk it accepts by placing limits on the amount of overall exposure, and where appropriate, on exposures in numerous time buckets. Market risk exposures are governed by the Market Risk Management Policy, with annual policy reviews by the Board.

The Group monitors and manages market risk exposures against these limits on an ongoing basis via its Asset and Liability Committee (ALCO), which reports via the Risk Committee to the Board. Market risk is managed within the Group's Treasury operations.

The Group has a comprehensive risk management framework in place for managing market risk, which includes:

- A Market Risk Management Policy which contains limits for VaR, EVE and PVbp
- Ongoing monitoring of interest rate movements and market risk exposure
- At least monthly market risk exposure review by ALCO
- Ongoing VaR, EVE, EAR and PVbp analysis
- Ongoing duration and gap analysis monitoring

The Group's market risk exposure is considered to be consistent with regulatory guidance and acceptable industry levels for an entity without a trading book, and hence it is considered that the market risk is low.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies (continued)

Interest rate sensitivity analysis

The Group analyses interest rate sensitivity on a wholistic basis using EAR and EVE.

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

Year Ended 30 June 2022

	Carrying amount	Group			Other movements in equity
		+100bp		-100bp	
	\$000	Income statement	Other movements in equity	Income statement	Other movements in equity
	\$000	\$000	\$000	\$000	\$000
2022					
Cash and cash equivalents	167,898	1,568	-	(343)	-
Receivables due from other financial institutions	1,217,277	10,104	-	(10,088)	-
Loans and advances	5,839,939	38,822	-	(38,822)	-
Derivatives financial instruments	8,477	-	5,048	-	(5,171)
Members' deposits	(5,747,374)	(41,915)	-	41,885	-
Borrowings	(968,782)	(6,514)	-	6,510	-
Total increase/(decrease)	517,435	2,065	5,048	(858)	(5,171)
2021					
Cash and cash equivalents	204,687	1,863	-	(406)	-
Receivables due from other financial institutions	1,243,940	10,140	-	(6,606)	-
Loans and advances	5,364,284	41,161	-	(41,161)	-
Derivatives financial instruments	(356)	-	2,247	-	(2,312)
Members' deposits	(5,472,468)	(40,257)	-	40,227	-
Borrowings	(924,582)	(5,837)	-	3,668	-
Total increase/(decrease)	415,505	7,070	2,247	(4,278)	(2,312)

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies (continued)

Year Ended 30 June 2022

	Carrying amount	Bank				
		Income statement	+100bp		-100bp	
			Other movements in equity	Income statement	Other movements in equity	
\$000	\$000	\$000	\$000	\$000	\$000	
2022						
Cash and cash equivalents	90,466	823	-	(156)	-	
Receivables due from other financial institutions	1,217,277	10,104	-	(10,088)	-	
Loans and advances	5,839,939	38,822	-	(38,822)	-	
Derivatives financial instruments	7,554	(333)	5,048	339	(5,171)	
Members' deposits	(5,751,546)	(41,915)	-	41,885	-	
Borrowings	(574,261)	(3,162)	-	3,158	-	
Due to controlled entities	(396,891)	(3,352)	-	3,352	-	
Total increase/(decrease)	432,538	987	5,048	(332)	(5,171)	

2021

Cash and cash equivalents	118,758	1,107	-	(217)	-
Receivables due from other financial institutions	1,243,940	10,140	-	(6,606)	-
Loans and advances	5,364,284	41,161	-	(41,161)	-
Derivatives financial instruments	(356)	-	2,247	-	(2,312)
Members' deposits	(5,474,465)	(40,257)	-	40,227	-
Borrowings	(705,985)	(3,983)	-	1,814	-
Due to controlled entities	(225,601)	(1,854)	-	1,854	-
Total increase/(decrease)	320,575	6,314	2,247	(4,089)	(2,312)

Year Ended 30 June 2022

	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
Fair value of interest rate swaps				
Fair value estimation - interest rate swaps - asset	16,653	391	15,730	391
Fair value estimation - interest rate swaps - (liability)	(8,176)	(747)	(8,176)	(747)

The fair value of interest rate swaps is calculated as the present value of the estimated cash flows using observable yield curves and constitutes a level 2 valuation technique.

Hedge accounting disclosures

The Bank is exposed to the variability in expected future cash flows attributable to a portfolio containing fixed and variable rate loans funded by variable and fixed rate deposits. To reduce risk the Bank enters into hedging agreements, primarily interest rate swap contracts, to receive floating and pay fixed interest and to pay floating and receive fixed interest.

The objective of these hedges is to manage the variability of interest rate cash flows over the hedging period.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk management - objectives and policies

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

The Group monitors and manages its liquidity risk on an ongoing basis within its Treasury operations and via its ALCO, which reports to the Risk Committee and to the Board. The Group monitors its liquidity risk by placing minimum limits on the amount of liquidity held. Liquidity risk is governed by policies, with annual policy reviews by the Board.

The Group maintains a portfolio of high-quality liquid assets at all times. The Group's liquid assets consist of cash, and both short- and long-term investments in RBA repo-eligible securities.

Financing arrangements

Liquidity support is available in the form of a \$3,000,000 (2021: \$3,000,000) overdraft facility with Cuscal. This facility was undrawn as at 30 June 2022.

Liquidity support is available in the form of a \$1,250,000 (2021: \$1,250,000) overdraft facility with Indue. This facility was undrawn as at 30 June 2022.

Also maintained by the Group are:

- a securitisation warehouse facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of \$75,000,000 (2021: \$75,000,000), of which \$23,083,798 (2021: \$28,881,000) was available for drawdown as at 30 June 2022; and
- a self-securitisation facility under the Pinnacle Series Trust 2014-SST of \$1,483,000,000 (2021: \$1,650,000,000). The A Notes (AAA rated) of \$1,283,000,000 (2021: \$1,465,000,000) are available as a source of contingent liquidity via repurchase agreements with the RBA if required in the event of a liquidity stress scenario. The A Notes support drawdown of the RBA's TFF, and a portion of the A Notes are held as encumbered assets (note 17).

The Group and the Bank had access to the following undrawn borrowing facilities as at 30 June 2022:

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
	\$000	\$000	\$000	\$000
Floating rate				
Expiring within one year (overdraft facilities)	4,250	4,250	4,250	4,250
	4,250	4,250	4,250	4,250

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk management - objectives and policies (continued)

The below tables represent the maturities of financial liabilities.

Year Ended 30 June 2022	Group					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	
	\$000	\$000	\$000	\$000	\$000	\$000
Maturities of financial liabilities						
2022						
Borrowings	150	311,816	156,300	440,337	77,217	985,819
Members' deposits	3,219,101	1,473,245	932,473	134,744	-	5,759,563
Derivative financial instruments	-	91	1,467	6,618	-	8,176
Other payables	-	21,319	-	-	-	21,319
Lease liabilities	-	1,552	4,570	17,281	13,403	36,806
	3,219,251	1,808,023	1,094,810	598,980	90,620	6,811,684
2021						
Borrowings	1,344	388,948	112,039	285,291	136,960	924,582
Members' deposits	2,969,330	1,479,405	916,071	107,662	-	5,472,468
Derivative financial instruments	-	38	131	578	-	747
Other payables	-	22,689	-	-	-	22,689
Lease liabilities	-	1,534	4,738	19,822	16,123	42,217
	2,970,674	1,892,614	1,032,979	413,353	153,083	6,462,703

Year Ended 30 June 2022	Bank					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	
	\$000	\$000	\$000	\$000	\$000	\$000
Maturities of financial liabilities						
2022						
Borrowings	-	285,549	85,160	190,304	14,000	575,013
Members' deposits	3,223,273	1,473,245	932,473	134,744	-	5,763,735
Derivative financial instruments	-	91	1,467	6,618	-	8,176
Other payables	-	20,661	-	-	-	20,661
Lease liabilities	-	1,552	4,570	17,281	13,403	36,806
	3,223,273	1,781,098	1,023,670	348,947	27,403	6,404,391
2021						
Borrowings	1,000	388,949	65,920	250,116	-	705,985
Members' deposits	2,971,327	1,479,406	916,071	107,662	-	5,474,466
Derivative financial instruments	-	38	131	578	-	747
Other payables	-	20,639	-	-	-	20,639
Lease liabilities	-	1,534	4,738	19,822	16,123	42,217
	2,972,327	1,890,566	986,860	378,178	16,123	6,244,054

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies

Credit risk is the risk of a bank borrower or counterparty failing to meet contractual obligations in accordance with agreed terms, potentially resulting in losses.

Credit risk may arise from both lending activities to members and exposure to bank counterparties in respect of liquidity investments.

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

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

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

To determine credit quality, the Group has implemented a credit risk grading system. The credit risk grading system highlights changes in the Group's credit risk profile and trends in asset quality. Retail loans with similar risk characteristics are managed on a portfolio basis. In relation to the home loan portfolio, credit quality is aligned to APRA Standard APS 112 Standardised approach to Credit Risk.

Within the commercial loan portfolio each exposure greater than \$500,000 is graded on an individual basis. All credit exposures are regularly monitored to ensure that any deterioration in credit quality is identified and appropriately managed. Where recoverability is in doubt, loans are individually managed, and specific provisions are raised.

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

There have been improvements to the Group's credit risk policies from the prior year through the inclusion of environmental risk and locations impacted by extreme weather events. This is to protect the Group and its members, ensuring applicants are appropriately insured and that securities are not materially impacted. This improvement better aligns the Group with industry standards and regulator expectations.

The loans and advances portfolio of the Group does not include any loan which represents 10% or more of Tier 1 Capital.

ECL model

The Group applies a simplified ECL model to all financial assets accounted for at amortised cost and FVOCI. Under the ECL model the Group calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The credit loss is the sum of these probability-weighted outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Model methodology

The model uses historic loan performance data and benchmarking to calculate product class segmented probability of default percentages (PD) and loss given default percentages (LGD). It then allocates each account in the loan book into one of 3 stages based on credit risk and calculates an account level exposure at default (EAD) and an ECL.

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

The calculation is broken down into monthly components and discounted back to current date (using the individual account interest rate). For example, a 12-month ECL calculation for a stage 1 loan will be calculated for each of the 12 months separately (including expected exposure for each month discounted over a different period) and combined to give the total provision.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Segmentation

For modelling purposes, the portfolio is divided into the below product class segments:

- Commercial
- Home Loan
- Credit Card
- Personal Loans
- Overdrafts
- Secured Lines of Credit
- Savings Accounts (overdrawn with no overdraft facility)

Staging

Each account is allocated to a stage based on the current credit risk and the ECL calculation varies depending on stage.

Stage 1 - performing. Accounts with no arrears and up to 29 days arrears are allocated to stage 1. ECL is a 12-month loss period based on the probability of going into default over the next 12 months.

Stage 2 - significant increase in credit risk. Accounts with 30 to 89 days arrears and accounts where the customer is under a hardship arrangement are allocated to stage 2. ECL is calculated as a lifetime loss based on the probability of going into default over the lifetime of the loan.

Stage 3 - impaired. Accounts with greater than 90 days arrears or an event of default has occurred e.g. bankruptcy are allocated to stage 3. ECL is also the lifetime loss, although as the loan is already in default the probability of default is 100%.

Specific provisions - for most stage 3 accounts, the Group holds a specific provision for the full amount (less anything considered recoverable on secured loans). For loans that are considered well secured a collective provision rather than a specific provision will be applied. The model does not apply a collective provision on accounts where a specific provision is held.

Probability of Default

The probability of default is based on a roll rate model. It divides loan data into different arrears buckets (such as 30, 60, 90 days past due), and measures the proportion of accounts that “roll” from one bucket to another, which determines the transition probability. Default is defined as 90 days or more in arrears.

Loss Given Default

For Personal Loans, Credit Cards, and Overdrafts the Loss Given Default model is calculated across historic data. For Home Loans, Secured Lines of Credit and Commercial Loans, the model uses benchmark numbers due to the lack of historic write offs to build a statistically valid model.

Exposure at Default

For revolving credit facilities, the maximum limit available is used for exposure. For term loans the scheduled balance in the month being calculated is used.

Lifetime

The model calculates a behavioural life for loans based on historic data. For Personal Loans and Commercial Loans, where accounts are generally held until maturity the contractual life is used.

Macroeconomic Overlay

To build the model correlations, testing of historic Australian ADI loss data against macroeconomic factors was carried out to determine which factors are the most appropriate. The model includes 4 macroeconomic factors which are most correlated to losses. Three scenarios for 5-year forecasts for each factor are loaded and these are individually weighted to feed into an adjustment to the overall collective ECL calculation.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Data and model recalibration

Each month the full loan book with loss data is loaded into the model to increase the amount of data available. The model recalculates all ECL inputs based on the last three years of data, so the model dynamically recalibrates each month.

(i) Financial instruments subject to impairment by internal credit risk grading

Internal credit grades

the Group's credit risk grading system is defined below.

- CRG1 – Low Risk

Retail loan products that are homogeneous in nature, qualify as standard eligible mortgages or non-standard eligible mortgages under APS 112 and have the following characteristics:

- Qualify for a risk weight of 35%.

Other non-loan exposures that have been evaluated as low risk have been booked in this category.

- CRG2 – Sound Risk

Retail loan products that are homogeneous in nature, qualify as standard eligible mortgages or non-standard eligible mortgages under APS 112 and have the following characteristics:

- Qualify for a risk weight of 50%.

- CRG3 – Stable Risk

Retail loan products that are homogeneous in nature, qualify as standard eligible mortgages or non-standard eligible mortgages under APS 112 and have the following characteristics:

- Qualify for a risk weight of 75% or greater.

- CRG4 – Moderate Risk

Loan products that are homogeneous in nature and have the following characteristics:

- Qualify for a 100% risk weight under APS 112.
- Unsecured, partially secured or fully secured by forms of security other than registered first mortgage (or second mortgage where priority is granted or the property value is sufficient to cover total debts against that security). e.g. secured personal loans and commercial loans.

- CRG5 – Acceptable Risk

Loan products that have the following characteristics:

- Qualify for a 100% risk weight under APS 112.
- Unsecured e.g. credit cards, personal loans.
- Includes overdrafts.

- CRG6 – Managed

Loans that are being individually managed due to default where a loss is possible.

The following tables disclose by internal rating grades and ECL impairment stage, the gross carrying amount of assets measured at amortised cost, and the undrawn credit commitments of the Group and the Bank, that are subject to the impairment requirements of AASB 9. The tables exclude the benefit of collateral.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Year Ended 30 June 2022

	Stage 1	Stage 2	Group Stage 3		Total
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	
Internal rating	\$000	\$000	\$000	\$000	\$000
Low (Internal risk grade 1)					
Cash and cash equivalents	167,898	-	-	-	167,898
Receivables due from financial institutions	1,217,665	-	-	-	1,217,665
Loans and advances	4,686,553	22,046	7,659	14	4,716,272
Undrawn credit commitments	845,095	-	-	-	845,095
Total Low	6,917,211	22,046	7,659	14	6,946,930
Sound (Internal risk grade 2)					
Loans and advances	487,665	2,357	818	-	490,840
Total Sound	487,665	2,357	818	-	490,840
Stable (Internal risk grade 3)					
Loans and advances	244,602	-	354	1,166	246,122
Total Stable	244,602	-	354	1,166	246,122
Moderate (Internal risk grade 4)					
Loans and advances	33,792	97	-	-	33,889
Total Moderate	33,792	97	-	-	33,889
Acceptable (Internal risk grade 5)					
Other financial assets held at AC	-	-	-	1,119	1,119
Loans and advances	349,530	284	-	364	350,178
Total Acceptable	349,530	284	-	1,483	351,297
Managed (Internal risk grade 6)					
Loans and advances	3,231	316	2,104	3,437	9,088
Total Managed	3,231	316	2,104	3,437	9,088
Total	8,036,031	25,100	10,935	6,100	8,078,166
Financial assets by ECL stage					
Cash and cash equivalents	167,898	-	-	-	167,898
Receivables due from financial institutions	1,217,665	-	-	-	1,217,665
Other financial assets held at AC	-	-	-	1,119	1,119
Loans and advances	5,805,373	25,100	10,935	4,981	5,846,389
Off-balance Sheet					
Undrawn credit commitments	845,095	-	-	-	845,095
Total financial assets by ECL stage	8,036,031	25,100	10,935	6,100	8,078,166

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Year Ended 30 June 2021

	Stage 1	Stage 2	Group Stage 3		Total
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	
Internal rating	\$000	\$000	\$000	\$000	\$000
Low (Internal risk grade 1)					
Cash and cash equivalents	204,687	-	-	-	204,687
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Loans and advances	4,234,465	28,109	10,259	4	4,272,837
Undrawn credit commitments	791,401	-	-	-	791,401
Total Low	6,475,119	28,109	10,259	4	6,513,491
Sound (Internal risk grade 2)					
Loans and advances	494,428	4,314	1,017	-	499,759
Total Sound	494,428	4,314	1,017	-	499,759
Stable (Internal risk grade 3)					
Loans and advances	224,839	737	1,200	-	226,776
Total Stable	224,839	737	1,200	-	226,776
Moderate (Internal risk grade 4)					
Loans and advances	38,431	83	-	-	38,514
Total Moderate	38,431	83	-	-	38,514
Acceptable (Internal risk grade 5)					
Loans and advances	315,604	298	-	1,622	317,523
Total Acceptable	315,604	298	-	1,622	317,523
Managed (Internal risk grade 6)					
Other financial assets held at AC	-	-	-	30,753	30,753
Loans and advances	9,161	636	2,605	5,634	18,036
Total Managed	9,161	636	2,605	36,387	48,789
Total	7,557,582	34,177	15,081	38,013	7,644,853
Financial assets by ECL stage					
Cash and cash equivalents	204,687	-	-	-	204,687
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Other financial assets held at AC	-	-	-	30,753	30,753
Loans and advances	5,316,928	34,177	15,081	7,260	5,373,446
Off-balance Sheet					
Undrawn credit commitments	791,401	-	-	-	791,401
Total financial assets by ECL stage	7,557,582	34,177	15,081	38,013	7,644,853

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Year Ended 30 June 2022

	Stage 1	Stage 2	Bank Stage 3		Total
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	
	\$000	\$000	\$000	\$000	\$000
Internal rating					
Low (Internal risk grade 1)					
Cash and cash equivalents	90,466	-	-	-	90,466
Receivables due from financial institutions	1,217,665	-	-	-	1,217,665
Other financial assets held at AC	575	-	-	-	575
Loans and advances	4,686,553	22,046	7,659	14	4,716,272
Due from controlled entities	64,945	-	-	-	64,945
Undrawn credit commitments	845,095	-	-	-	845,095
Total Low	6,905,299	22,046	7,659	14	6,935,018
Sound (Internal risk grade 2)					
Loans and advances	487,665	2,357	818	-	490,840
Total Sound	487,665	2,357	818	-	490,840
Stable (Internal risk grade 3)					
Loans and advances	244,602	-	354	1,166	246,122
Total Stable	244,602	-	354	1,166	246,122
Moderate (Internal risk grade 4)					
Loans and advances	33,792	97	-	-	33,889
Total Moderate	33,792	97	-	-	33,889
Acceptable (Internal risk grade 5)					
Loans and advances	349,530	284	-	364	350,178
Due from controlled entities	-	-	-	2,824	2,824
Total Acceptable	349,530	284	-	3,188	353,002
Managed (Internal risk grade 6)					
Loans and advances	3,231	316	2,104	3,437	9,088
Total Managed	3,231	316	2,104	3,437	9,088
Total	8,024,119	25,100	10,935	7,805	8,067,959
Financial assets by ECL stage					
Cash and cash equivalents	90,466	-	-	-	90,466
Receivables due from financial institutions	1,217,665	-	-	-	1,217,665
Other financial assets held at AC	575	-	-	-	575
Loans and advances	5,805,373	25,100	10,935	4,981	5,846,389
Due from controlled entities	64,945	-	-	2,824	67,769
Off-balance Sheet					
Undrawn credit commitments	845,095	-	-	-	845,095
Total financial assets by ECL stage	8,024,119	25,100	10,935	7,805	8,067,959

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Year Ended 30 June 2021

	Stage 1	Stage 2	Bank		
	Collective	Collective	Stage 3	Specific	Total
	provision	provision	Collective	provision	
	12-months	Lifetime	provision	Lifetime	
	ECL	ECL not	Lifetime	ECL	
		credit	ECL credit		
		impaired	impaired		
	\$000	\$000	\$000	\$000	\$000
Internal rating					
Low (Internal risk grade 1)					
Cash and cash equivalents	118,758	-	-	-	118,758
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Other financial assets held at AC	2,479	-	-	-	2,479
Loans and advances	4,234,465	28,109	10,260	5	4,272,839
Due from controlled entities	76,275	-	-	-	76,275
Undrawn credit commitments	791,401	-	-	-	791,401
Total Low	6,467,944	28,109	10,260	5	6,506,318
Sound (Internal risk grade 2)					
Loans and advances	494,428	4,314	1,017	-	499,759
Total Sound	494,428	4,314	1,017	-	499,759
Stable (Internal risk grade 3)					
Loans and advances	224,839	737	1,200	-	226,776
Total Stable	224,839	737	1,200	-	226,776
Moderate (Internal risk grade 4)					
Loans and advances	38,431	83	-	-	38,514
Total Moderate	38,431	83	-	-	38,514
Acceptable (Internal risk grade 5)					
Loans and advances	315,604	298	-	1,622	317,524
Total Acceptable	315,604	298	-	1,622	317,524
Managed (Internal risk grade 6)					
Loans and advances	9,161	636	2,605	5,634	18,036
Due from controlled entities	-	-	-	28,938	28,938
Total Managed	9,161	636	2,605	34,572	46,974
Total	7,550,407	34,177	15,082	36,199	7,635,865
Financial assets by ECL stage					
Cash and cash equivalents	118,758	-	-	-	118,758
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Other financial assets held at AC	2,479	-	-	-	2,479
Loans and advances	5,316,928	34,177	15,082	7,261	5,373,448
Due from controlled entities	76,275	-	-	28,938	105,213
Off-balance Sheet					
Undrawn credit commitments	791,401	-	-	-	791,401
Total financial instruments by ECL stage	7,550,407	34,177	15,082	36,199	7,635,865

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

(ii) Financial instruments subject to impairment by collateral

The Group employs a range of policies and practices to mitigate credit risk, most notably the receipt of collateral for funds advanced. The Group has internal policies on the acceptability of collateral and credit risk mitigation.

The principal collateral types for financial assets are:

- Home loans secured by registered mortgages over residential properties. Lenders mortgage insurance contracts are entered as part of the Group's lending policy to manage >80% LVR credit risk in the home lending portfolio.
- Commercial loans are secured by registered mortgages over commercial residential or non-residential properties.
- Personal loans are provided on both a secured or unsecured basis. Secured loans are mostly secured by a charge over motor vehicles.

The table below discloses the most recent valuation of the collateral held by category.

Year Ended 30 June 2022

		Group					
	Note	Gross amount \$000	ECL Provision \$000	Carrying amount \$000	Collateral held Other \$000	Property \$000	
Maximum credit exposure							
Cash and cash equivalents	8	167,898	-	167,898	-	-	
Receivables due from financial institutions	9	1,217,665	(388)	1,217,277	-	-	
Other financial assets held at AC	12	1,119	-	1,119	-	352	
Loans and advances ⁽ⁱ⁾	14	5,846,387	(5,440)	5,840,947	46,929	11,561,420	
- Home loans		5,412,010	(2,343)	5,409,667	858	10,279,111	
- Secured overdrafts		46,276	(2)	46,274	642	455,218	
- Personal loans		33,989	(117)	33,872	40,305	69	
- Overdraft & credit cards		39,517	(471)	39,046	45	7,280	
- Commercial & property finance		314,595	(2,507)	312,088	5,079	819,742	
Total		7,233,069	(5,828)	7,227,241	46,929	11,561,772	
Off-Balance Sheet							
Undrawn credit commitments	32	846,955	(1,005)	845,950	-	-	
Maximum credit exposure		8,080,024	(6,833)	8,073,191	46,929	11,561,772	

(i) Gross loans and advances after effective rate adjustment.

Year Ended 30 June 2021

		Group					
	Note	Gross amount \$000	ECL Provision \$000	Carrying amount \$000	Collateral held Other \$000	Property \$000	
Maximum credit exposure							
Cash and cash equivalents	8	204,687	-	204,687	-	-	
Receivables due from financial institutions	9	1,244,566	(626)	1,243,940	-	-	
Other financial assets held at AC	12	30,753	(9,746)	21,007	-	19,461	
Loans and advances ⁽ⁱ⁾	14	5,373,447	(7,994)	5,365,453	90,611	10,817,843	
- Home loans		4,954,898	(5,091)	4,949,807	1,518	9,512,033	
- Secured overdrafts		58,134	(19)	58,115	1,804	493,298	
- Personal loans		38,658	(229)	38,429	44,143	99	
- Overdraft & credit cards		42,858	(476)	42,382	45	9,556	
- Commercial & property finance		278,899	(2,179)	276,720	43,101	802,857	
Total		6,853,453	(18,366)	6,835,087	90,611	10,837,304	
Off-Balance Sheet							
Undrawn credit commitments	32	793,297	(1,167)	792,131	-	-	
Maximum credit exposure		7,646,750	(19,533)	7,627,218	90,611	10,837,304	

(i) Gross loans and advances after effective rate adjustment.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk management – objectives and policies (continued)

Year Ended 30 June 2022

			Bank		Collateral held	
	Note	Gross amount \$000	ECL Provision \$000	Carrying amount \$000	Other \$000	Property \$000
Maximum credit exposure						
Cash and cash equivalents	8	90,466	-	90,466	-	-
Receivables due from financial institutions	9	1,217,665	(388)	1,217,277	-	-
Other financial assets held at AC	12	575	-	575	-	-
Loans and advances ⁽ⁱ⁾	14	5,846,387	(5,440)	5,840,947	46,929	11,561,420
- Home loans		5,412,010	(2,343)	5,409,667	858	10,279,111
- Secured overdrafts		46,276	(2)	46,274	642	455,218
- Personal loans		33,989	(117)	33,872	40,305	69
- Overdraft & credit cards		39,517	(471)	39,046	45	7,280
- Commercial & property finance		314,595	(2,507)	312,088	5,079	819,742
Due from controlled entities	17	67,769	-	67,769	-	-
Total		7,222,862	(5,828)	7,217,034	46,929	11,561,420
Off-Balance Sheet						
Undrawn credit commitments	32	846,955	(1,005)	845,950	-	-
Maximum credit exposure		8,069,817	(6,833)	8,062,984	46,929	11,561,420

(i) Gross loans and advances after effective rate adjustment.

Year Ended 30 June 2021

			Bank		Collateral held	
	Note	Gross amount \$000	ECL Provision \$000	Carrying amount \$000	Other \$000	Property \$000
Maximum credit exposure						
Cash and cash equivalents	8	118,758	-	118,758	-	-
Receivables due from financial institutions	9	1,244,566	(626)	1,243,940	-	-
Other financial assets held at AC	12	2,479	-	2,479	-	-
Loans and advances ⁽ⁱ⁾	14	5,373,447	(7,994)	5,365,453	90,611	10,817,843
- Home loans		4,954,898	(5,091)	4,949,807	1,518	9,512,033
- Secured overdrafts		58,134	(19)	58,115	1,804	493,298
- Personal loans		38,658	(229)	38,429	44,143	99
- Overdraft & credit cards		42,858	(476)	42,382	45	9,556
- Commercial & property finance		278,899	(2,179)	276,720	43,101	802,857
Due from controlled entities	17	105,213	(9,746)	95,467	-	-
Total		6,844,463	(18,366)	6,826,097	90,611	10,817,843
Off-Balance Sheet						
Undrawn credit commitments	32	793,297	(1,167)	792,131	-	-
Maximum credit exposure		7,637,760	(19,533)	7,618,228	90,611	10,817,843

(i) Gross loans and advances after effective rate adjustment.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

(d) Climate related risk

Physical, transition, and liability risks associated with climate change are relevant to the Group. In particular, changes in climate conditions, extreme weather events, and the action taken by governments to transition to a low carbon economy can potentially affect the ability of customers to repay their loans and it can also negatively affect the value of security held by the Group for those loans. The possible impacts of climate change are addressed as part of the risk management framework and is considered when the corporate risk profile for the Group is reviewed.

Credit policy has been updated to minimise the impacts of climate risk our members and the bank may experience. Updates to policy include:

- prudent lending practices for impacted locations of extreme weather events; and
- securities that have high environmental risks require individual review and mitigation.

(e) Capital management

The Group maintains an appropriate level of capital commensurate with the level and extent of risks to which it is exposed from its banking activities. The purpose of capital is to absorb unexpected losses from loans, investments and general operations. Capital is also held for unexpected operational risk events. Capital growth enables balance sheet growth and healthy levels of capital maintain the confidence of depositors and creditors.

The Group's Capital Management Strategy supports the Board's appetite to create value for the Bank's members while maintaining a sound and sustainable business through the effective management of risks which is informed by the Internal Capital Adequacy Assessment Process (ICAAP). The Group's ICAAP ensures that capital is held at a level consistent with the Group's risk appetite and helps inform the Capital Management plan, supported by the Risk Management Framework which ensures systems and procedures are in place to identify, assess, measure, monitor and manage the risk arising from activities on a continuous basis. The Capital Management plan supports the forward projections (over three years) to assist in managing capital within the Group's risk parameters. The Capital Management plan sets capital target levels and the mechanisms for securing additional capital. In order to ensure compliance with the minimum capital ratios, capital adequacy is calculated monthly, reported to ALCO and thereafter reported to the Risk Committee and Board. The level of capital adequacy is also calculated every quarter and reported to APRA.

The Group is required by APRA to measure and report capital on a risk weighted basis in accordance with the requirements of the Prudential Standards. This risk weighted approach measures the ratio of actual eligible capital held against a risk weighted balance for all on and off-balance sheet risk positions and for operational risk.

The Prudential Standards reflect the international risk-based capital measurement practices commonly known as Basel II and Basel III. This approach results in a difference in the measurement of the capital ratio of the consolidated entity, as defined by the Australian Prudential Standards, to include the Bank and its subsidiaries involved in financial service activities (referred to as level 2) and the Bank for the current financial year compared to the prior financial year.

The Group has implemented a Capital Note Programme and has a hybrid tier one capital note of \$75,000,000 in issuance, refer to note 28.

Year Ended 30 June 2022	Group		Bank	
	2022	2021	2022	2021
Capital adequacy ratio as at 30 June	15.98%	14.10%	15.92%	14.08%

Notes to the Financial Statements

37 DISCONTINUED OPERATIONS

(a) Description

In the previous year on 29 March 2021, the Police & Nurses Financial Planning Pty Ltd (“PNFP”) Directors authorised its intention to sell the underlying business together with its assets and liabilities to an interested buyer. The business was sold at period end for a total purchase price consideration of \$2,800,000 (ex GST) and is reported in the current period as a discontinued operation. 70% of the purchase consideration was settled on 23 July 2021 with the remaining 30% treated as a deferred receivable which is held in escrow to be repaid in equal instalments in 13 and 25 months from the settlement date. The deferred receivable is subject to clawback provisions should the buyer not obtain a benchmark revenue amount, where a portion of the revenue will be clawed back.

The assets subject to sale were The Client Book (nil accounting value), the Client Records (nil accounting value), the Revenue Rights from the Client Book (nil accounting balance); and 4 Motor Vehicles (value below). The liabilities transferred were the employee leave provisions for the transferred employees.

It is the intention to deregister PNFP.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

The financial performance and cash flow information presented are for the 12 months ended 30 June 2021.

(b) Financial performance and cash flow information

	Group	Bank
	2021	2021
	\$000	\$000
Revenue	2,751	893
Expenses	(2,441)	-
Profit/(loss) before income tax	310	893
Income tax (expense)/benefit	77	(268)
Profit/(loss) after income tax of discontinued operation	387	625
Gain on sale of the Assets after income tax	1,942	-
Profit/(loss) from discontinued operation	2,329	625
Profit/(loss) from Discontinued Operations		
- attributable to members	1,789	625
Profit/(loss) from Discontinued Operations		
- attributable to non-controlling interests	540	-
Net Cash inflow(outflow) from operating activities	447	893
Net Cash inflow/(outflow) from investing activities	17	-
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash generated by the disposal group	465	893

Notes to the Financial Statements

37 DISCONTINUED OPERATIONS (continued)

(c) Details on the sale of the Disposal Group's net assets

	Group	Bank
	2021	2021
	\$000	\$000
Consideration received or receivable:		
Current Receivable less employee provisions deducted from sale	1,967	-
Deferred receivable	924	-
GST payable	(280)	-
Total Disposal consideration	2,611	-
Carrying amount of net assets/(liabilities) sold	(163)	-
Gain on sale before income tax	2,774	-
Income Tax expense on gain (30%)	(832)	-
Gain on sale after income tax	1,942	-
Gain on Sale after income tax -attributable to members	1,263	-
Gain on Sale after income tax -attributable to non-controlling interests	442	-

The carrying amounts of the PNFP assets sold and liabilities transferred, as at the date of sale execution (30 June 2021) are shown below.

	\$000
Property, plant and equipment	26
Total Assets	26
Employee Provisions	(189)
Total Liabilities	(189)
Net Assets/(liabilities)	(163)

38 EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no material subsequent events identified.

Directors' Declaration

In the Directors' opinion:

- a) the financial statements and notes set out on pages 20 to 82 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's and Bank's financial position as at 30 June 2022 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

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

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



S C TARGETT
Director



G HUMPHREYS
Director

Date: 29 August 2022
PERTH, WA

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Independent Auditor's Report

To the Members of Police & Nurses Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Police & Nurses Limited and its controlled entities ("the Bank"), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Bank's financial position as at 30 June 2022 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 Bank 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 (including Independence Standards)* (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.

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Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Bank's annual report for the year ended 30 June 2022, 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 Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. 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 Bank'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 the Directors either intend to liquidate the Bank or to cease operations, or have 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_responsibilities/ar4.pdf. This description forms part of our auditor's report.



Grant Thornton Audit Pty Ltd
Chartered Accountants



D M Scammell
Partner – Audit & Assurance

Melbourne, 29 August 2022

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