



Police & Nurses Limited

ANNUAL REPORT 2023



Directory

Directors

Stephen Targett (Chair)

Julie Elliott

Andrew Hadley

Trevor Hunt

Louise Clarke

Gary Humphreys

Monish Paul

Chief Executive Officer

Andrew Hadley

Company Secretary

David (Verran) Fehlberg

Registered Office

Police & Nurses Limited
ABN 69 087 651 876

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Western Australia
Telephone 13 25 77
www.pnbank.com.au

External Auditors

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Level 43 Central Park
152 – 158 St Georges Terrace
Perth 6000
Western Australia

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.

Contents

Group performance at a glance	3
Board Members and Executive Committee	4
Chair and CEO Report	5
2023 Highlights	7
General Manager BCU Bank Report	12
General Manager P&N Bank Report	14
Report of the Directors	18
Auditor's Independence Declaration	22
Statements of Profit or Loss	24
Statements of Other Comprehensive Income	25
Statements of Financial Position	26
Statements of Changes in Equity	27
Statements of Cash Flows	28
Notes to the Financial Statements	29
Directors' Declaration	85
Independent Auditor's Report	86

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 consolidated entity's operations and its principal activities is included in the Report of the Directors on pages 18 to 21, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 29 August 2023. The Directors have the power to amend and reissue the financial report.

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 Bank'
Group	the Company and its subsidiaries
P&N	the division of the Bank carried on under the trading name 'P&N Bank'

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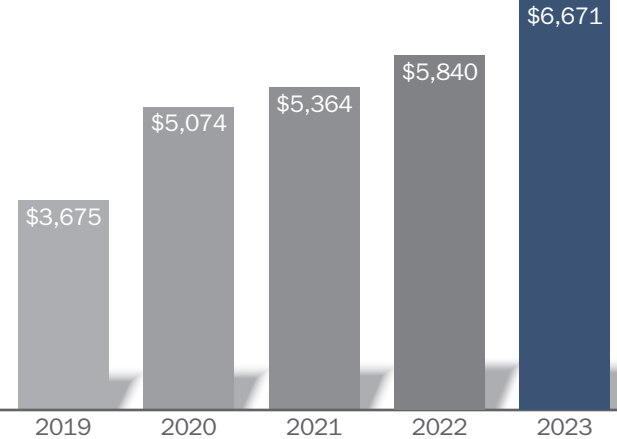


Group performance at a glance

Loans under management
grew by

14%

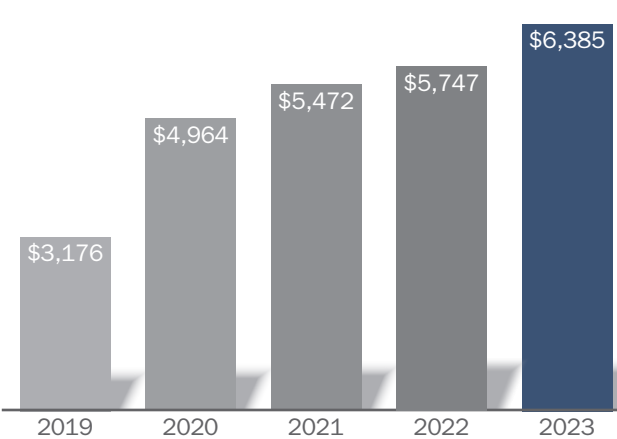
2022	2023
\$5,840m	\$6,671m



Total deposit balances
grew by

11%

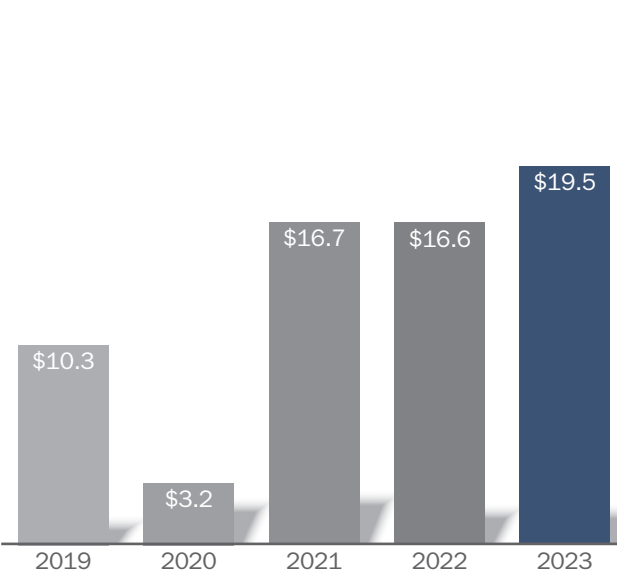
2022	2023
\$5,747m	\$6,385m



Net profit after tax
increased by

18%

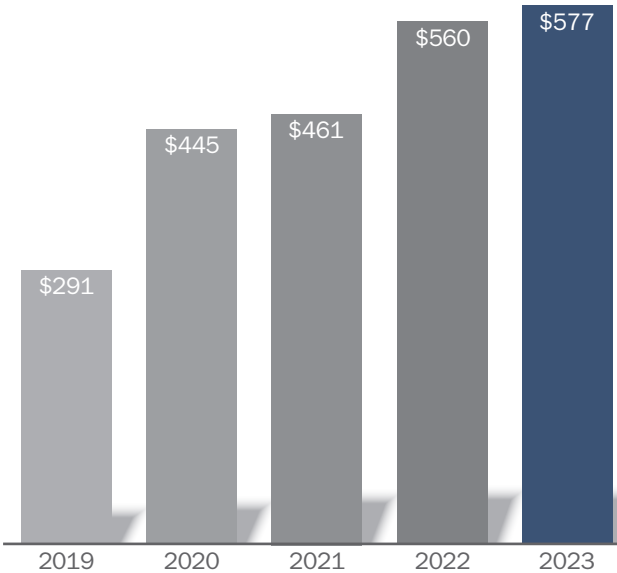
2022	2023
\$16.6m	\$19.5m



Total members' funds
increased to

\$577m

2022	2023
\$560.3m	\$577.3m



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

Board Members



Stephen Targett
Chair



Julie Elliott
Director



Louise Clarke
Director



Gary Humphreys
Director



Trevor Hunt
Director



Monish Paul
Director



Andrew Hadley
Director

Executive Committee



Andrew Hadley
Chief Executive Officer



Therese Turner
Chief Customer Officer



Jacqueline Ryan
Chief Business Banking
Officer



Patrick Jodas
Chief Financial Officer



Warren Willis
Chief Transformation and
Technology Officer



Christine MacKenzie
Chief People Officer



Erik Fenna
Acting Chief Risk Officer

Welcome to the 2023 Annual Report for Police & Nurses Limited (PNL or the Group) represented by our customer-owned bank brands, P&N Bank in Western Australia and BCU Bank in New South Wales and Queensland.

As a contemporary customer-owned bank, our purpose is to enrich the lives of our members and their communities.

Our members represent the diverse Australian community, and our principles of collectivism and inclusion remain deeply woven throughout our organisation and are as relevant today as when we were founded.

This year, we are pleased to report that our Group has delivered strong financial results and built foundations to enhance our customer experience and operate more sustainably in the future.

Amongst other notable achievements, we have received multiple banking awards and recognition across the two brands, successfully rebranded bcu to BCU Bank and have, in the main, completed our multi-year transformation program on time and on budget.

Financial performance

The economic environment, fuelled by the unprecedented number of Reserve Bank of Australia (RBA) official cash rate increases, has no doubt impacted borrowers and, on the other side of the coin, benefitted depositors.

The cost of living pressures facing most Australians will continue to be top of mind as we strive to get the balance right, positioning lending and deposit products as competitively as possible for all our members.

Our Group's overall profit after tax was up 18% to \$19.5m, with our Capital Adequacy Ratio finishing the year at a respectable 14.89%.

Deposits grew by 11% to \$6.4bn, and our focus on helping more Australians purchase their home or refinance their existing property saw total loans under management increase 14% to \$6.7bn.



During the year we attracted more than 16,000 new members, taking the total to 179,498, demonstrating that our customer-owned offering is resonating.

Chair and CEO Report

Scale remains imperative

The 2023 mergers involving four of the six largest Australian customer-owned banks is an implicit endorsement of our strategy, to grow the business naturally and through mergers.

Our Group is currently the seventh largest customer-owned banking group in Australia by asset size, with the three largest customer-owned organisations now more than twice our size, and we view further consolidation of the industry as inevitable.

The retail banking industry is becoming increasingly commoditised, and given the critical investments required in digital banking, cyber security, technology, and regulation to name just a few, achieving scale through mergers can help ensure that we remain competitive and sustainable.

We will always operate in the best interests of our members and our people, maintaining those all-important personal relationships, and will continue to keep members apprised of any relevant industry updates.

With thanks

To deliver on our member-first promise, we have a skilled and committed Board and team of talented leaders and employees, all focused on delivering a bank that is competitive today and sustainable in the future.

We acknowledge and thank our fellow Directors, our leaders and our people who have dedicated themselves to continuously improving our customer value proposition throughout the year for the benefit of our members.

As a valued member, we especially thank you for the trust you place in us and assure you of our continued and ongoing commitment to serve you.



Stephen Targett
Chair



Andrew Hadley
Chief Executive Officer



2023 Highlights

Customer experience at the heart

The growth of our business this year can largely be attributed to our success in delivering compelling propositions, more seamless and personalised interactions, and a standout customer experience.

With the rapid evolution of banking and payments technologies, it's vital we continue to anticipate and adapt to the changing needs and behaviours of our current and future members.

Our inaugural Chief Customer Officer, Therese Turner, was appointed earlier in the year and is responsible for P&N Bank, BCU Bank and our Broker division. Therese oversees the delivery of our Group's retail Customer Value Proposition (CVP) and drives alignment between the brands, seeking to identify opportunities to enrich and deepen the valued relationships we have with our members.

At a sector level, the new Customer Owned Banking Code of Practice (COBCOP or Code) launched in October 2022 and contains a series of new customer-centric commitments that are legally binding. Our Group has made additional commitments reflecting our deep commitment to members, with key areas of focus for the revised Code including accessible banking services, assistance for vulnerable customers, small business protections, and safeguards for guarantors and co-borrowers.

Competitive banking offerings

It's essential that we offer competitive banking products and services accessible through digital and mobile banking channels, contact centres, branches and brokers. This requires modern and aligned technology platforms that allow our members to self-serve and our people to access relevant information quickly and effortlessly.

Over the past three years, through our Group-wide transformation program, we have prioritised replacing outdated legacy systems, processes, and products.

We are poised to launch our new brand websites and begin unlocking the benefits of new technology platforms. Members should look forward to enjoying a much more personalised relationship with us in the future.

Some of the benefits members have already started to experience include a significant reduction in home loan approval times, with more than half of our simple home loan applications now approved in less than 24 hours.

With the introduction of our new customer relationship management system, our members will not only enjoy a more customised experience across our channels but will see improved turnaround times, enhanced communications and the ability to self-serve and book appointments with staff remotely.

BCU Bank		P&N Group		P&N Bank	

2023 Highlights

Business Banking and brokers – partnering for success

Our Business Banking division provides partnership support to our business customers through a relationship-led offering that centres on personalised service, industry expertise and customised solutions, empowering them to reach their goals.

We recognise the important role that small to medium businesses play in our communities more broadly and we have a clearly defined strategy to invest in and support our business banking customers.

In terms of our broker partners, our mission is to deliver a better overall broker experience with a more streamlined mortgage process that makes life easier for our brokers, and their clients.

Our brokers have benefitted from new web chat functionality that now allows brokers to connect with our team in real-time, access immediate support and assistance, and receive accurate and fast feedback on applications in progress. Our new application management process has vastly improved turn-around times and broker satisfaction.

Financial inclusion and wellbeing

We are committed to empowering our members to realise their financial goals by providing them with the choices, tools, information, and knowledge to build their financial literacy and make decisions with confidence.

P&N and BCU were among the first banks in Australia to launch a new personal financial empowerment tool, mymo, to customers under the Australian Government's Consumer Data Right (CDR) Scheme as part of Open Banking, with further detail about mymo in our P&N Bank and BCU Bank reports.



The launch of our Environmental, Social and Governance (ESG) Strategy last year marked a significant milestone for the Group and outlines our vision and roadmap which will see us integrate sustainability into our operations.

Towards sustainability

The Group continues to increase its focus on sustainability to meet the expectations of members, communities, and regulators, and to ensure we flourish in the years ahead without adversely impacting our environment and society.

Climate action

P&N Group takes climate action seriously and has continued to progress our climate response plan. The Group completed our first baseline emissions estimation with Ndevr Environmental, and the Board subsequently endorsed emission reduction targets which will be achieved through a focus on Scope 1 and 2 emissions, investing in renewable energy projects and utilising Certified Australian Offsets (ACCU) issued by the Clean Energy Regulator where required.

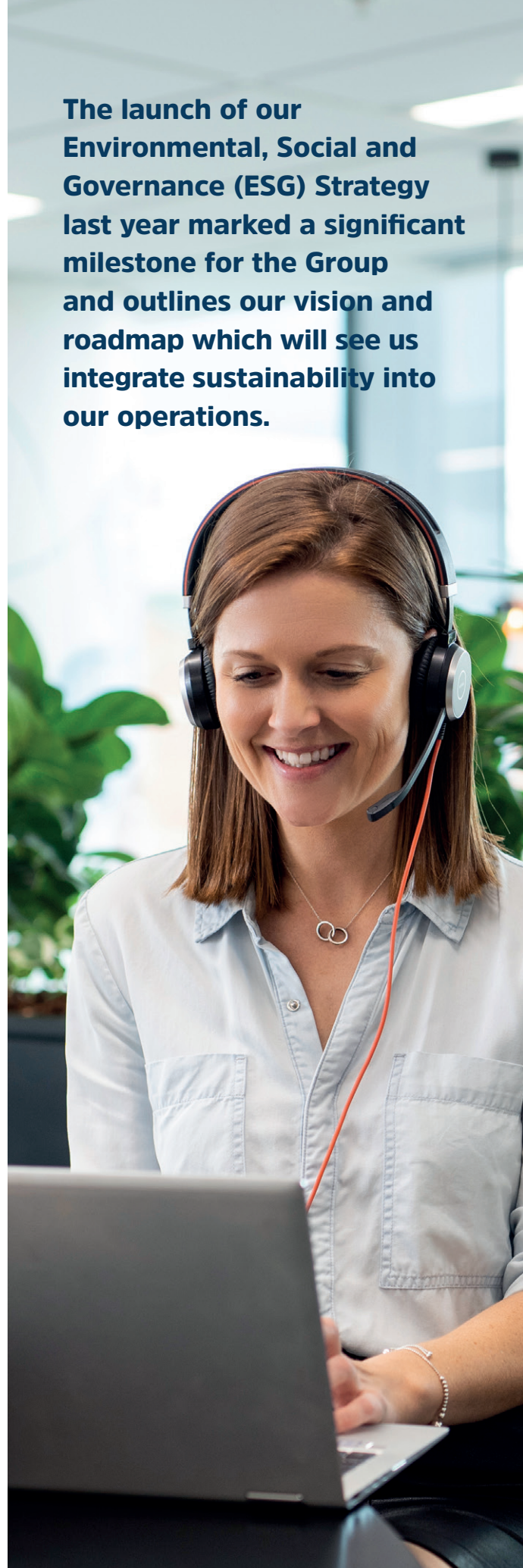
The Group will conduct an annual review of its Scope 1 and Scope 2 emissions to track progress and will look to further explore Scope 3 emissions, including financed emissions, in the coming year.

We have begun preparing for mandatory climate-related disclosures as we work to understand and reduce our carbon footprint, manage climate related risks, and identify opportunities to invest in renewable projects and green products.

We have commenced a number of sustainable practices within our organisation including uniform recycling with Upparel, Australia's largest onshore textile recycling, upcycling, and repurposing company. This will see all returned P&N Bank and BCU Bank uniforms recycled and repurposed, saving the items from landfill and reducing waste.

Our people now have access to an internal Sustainability Hub where ideas can be shared and conversations started around how we can become a more sustainable organisation. We recognise education is key and our employees have been encouraged to reduce printing, think sustainably before purchasing, be more temperature wise with heating and cooling and look for ways to reduce waste.

We will continue to mature as we integrate a genuine sustainability focus through our organisation via policies, processes, supply chains and stakeholder groups.



2023 Highlights

Our Diversity, Equity & Inclusion (DEI) Strategy, which forms part of our ESG Strategy, focuses on building an inclusive workplace, developing inclusive brands, and promoting inclusive design across our processes.

Reconciliation

We have an important role to play in the reconciliation with First Nations People and want to ensure we are learning, listening, and being guided by First Nations voices and leaders.

As part of the development of the Group's inaugural Reconciliation Action Plan (RAP) Innovate, which will be shared with members in the near future, we are committed to engaging with traditional owners and community leaders on the respective countries on which we work to help guide us on our journey.

We are proud and honoured to have an ongoing partnership with Mervyn (Nick) Abraham, owner and lead guide at Warrang-Bridil Aboriginal cultural tours and consultancy company, as well as Clark Webb CEO of Bularri Muurlay Nyanggan Aboriginal Corporation (BMNAC), to develop a deeper understanding of our sphere of influence as we establish the best approach to advance reconciliation for the communities in which we operate.



LGBTQIA+

A new Power of Language Guide was launched during the year to empower our people to speak up if they are witness to discrimination and support positive engagement with colleagues and members within the LGBTQIA+ community.

Our Group became a member of Pride in Diversity, a national not-for-profit employer support program specialising in HR, organisational change, and workplace diversity.



Gender equity

We continue to take a data-driven approach to understanding our gender equity landscape, focused on systemic changes reflected in our processes, policies, and frameworks.

A key priority for our Gender Equity Committee has been removing barriers for parents in the workplace. In particular, normalising male carers taking parental leave or working part time across all levels of the business. We have also focussed on ensuring those on parental leave remain connected to the business, with CEO check-ins and our keeping in touch program.

In the coming year, we will publish our gender pay gap with the Workplace Gender Equity Agency as part of legislative requirements and remain committed to the wider discussions focused on pay transparency and closing the gender pay gap across Australia.

The data suggests we are currently below the financial services industry average gender pay gap however, we believe there is more we can do to intentionally address the systemic drivers of the gap in the sector, and within our organisation.



Our people

At P&N Group, we are committed to being an employer of choice. We believe it is essential that we offer our employees a unique experience which they value, and one that attracts the talent we need to deliver organisational strategy and exceptional member service.

During the year we continued to promote and engage our people with our Employer Value Proposition (EVP) which, together with investment in our talent acquisition capability, meant we remained competitive in what continues to be a challenging environment for recruitment and retention. Pleasingly overall our staff engagement remained high, sitting in the top quartile of engagement at 79%.

With the launch of several initiatives aimed at connecting and digitising our HR systems to support recruitment, onboarding, payroll, and reporting, we are now better able to empower and support our employees and importantly give them time back in their day to focus on supporting our members. Our intentional focus on building a culture with and for our people by taking on board their feedback continued, with efforts concentrated on removing complexity and creating more time for meaningful and productive work.

The health and wellbeing of our people remains a priority, and our approach to flexible work is designed to offer balance between work and home life. The Volunteer Leave policy was extended across the Group, providing all employees with the opportunity to be part of something bigger by participating in up to two days paid leave with a registered charity of their choice per financial year.

Ensuring our employees are protected and empowered to address unlawful sexual harassment in the workplace is of utmost importance to us. As part of the new Respect at Work reforms, the Group has undertaken a holistic review of the current measures in place to better understand, prevent and appropriately address workplace sexual harassment.

An important part of our culture and employee experience is ensuring that development is intentional, and that our people have access to development opportunities to drive their own learning. To support a learning culture that promotes a growth mindset, innovation, and continuous learning, we launched Udemy Business, a market-leading online learning platform, to sit alongside our existing suite of learning and development offerings and programs to support the career growth and aspirations of our people.

General Manager BCU Bank Report

I am delighted to bring you BCU Bank's 2023 report, my first as General Manager. It's a privilege to lead BCU, a purpose-driven customer-owned bank that started out more than 50 years ago as the Nambucca Banana Grower's Federation Members Credit Union.

Since starting in this role and relocating to Coffs Harbour in 2022, I have taken time to meet many members across our BCU community and I have been inspired by the many examples of how the BCU team have stepped up to put our members first over the past year.

This year, BCU's performance reflects our commitment to delivering exceptional customer experiences in conjunction with the impact of our repositioned brand strategy, delivering strong growth. This success is also due to our continued investment in our people, systems, and processes.

I'm confident BCU is in a strong position as we begin the next chapter of our proud history.

Banking highlights

This year was one of growth for BCU. We welcomed more than 4,200 new members – one of our best years on record – and achieved significant growth in home lending and deposits.

Our commitment to our members and the quality of our products didn't go unnoticed. BCU was proud to win 11 industry awards for our home loan products from independent comparison bodies Mozo, Finder, and RateCity.

A key achievement for the year was the launch of BCU's new brand strategy, which was incredibly well received by existing and new members alike. A major part of

the strategy was the modernisation of BCU's vision "To become our customers' preferred partner on life's financial journey". Our vision created a strong foundation to build our new visual and verbal brand identity, including logo, colour palette, style and appearance of text and illustrations.

One of the ways we brought our new brand strategy to life was the launch of mymo by BCU, our financial empowerment app, which harnesses Open Banking to provide customers with a full picture of their finances, personalised insights, and reminders, to help them take control of their budget and reach their goals faster.

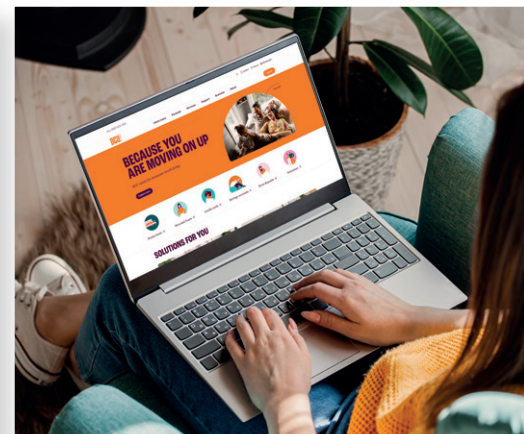
We were also thrilled to launch our new Bonus Saver account, our first new deposit product in over a decade. The product has been incredibly well received by our members, with more than 1,100 new accounts opened since the product launched in late March.

Community

I'm extremely proud of the impact BCU continues to have on members and our local communities through our sponsorships, grants, and other initiatives.

This year, BCU was the primary sponsor of the Strength in Culture event which brought 2022 Archibald prize winner, Blak Douglas, to Coffs Harbour to share his experience as a First Nations artist working to bridge the cultural divide through art.

Our support helped Orange Sky Australia and Brisbane Youth Service to positively connect with more than 500 people experiencing homelessness or doing it tough, and provide them with clean clothes, warm showers, friendly conversation, and other important resources.





In partnership with Australia Zoo, we will contribute towards providing a safe habitat for koalas and their joeys, providing funding for the koala hospital to support injured and sick koalas which are now listed as endangered across NSW and Queensland.

As part of our commitment to fostering diversity, equity, and inclusion, we were pleased to support NSW Regional Women Lawyers who work to ensure women in the legal profession across regional, rural, and remote NSW have the same benefits and opportunities as their city colleagues.

Our people are passionate about supporting their communities and contributed many hours volunteering and participating in events including the Bellingen Show, the Can-Do Cancer Trust swim relay, and the Lifeblood Financial Services Blood Challenge.

Many of our communities were impacted by the extreme weather events in 2021-22 that resulted in the destruction of our Toormina, Lismore, and Grafton branches. We were excited to open our new Lismore Business and Personal Banking Centre in December 2022, and I am pleased to report the Toormina and Grafton branch rebuilds commenced in June 2023. We appreciate the patience of our members while we have been working to rebuild these branches. We understand how inconvenient it has been and we look forward to welcoming you back to our new and improved branches.

Our people are our biggest asset

Our focus on purpose and values delivered strong outcomes with regards to talent attraction while further building core capabilities required for the future.

In March we launched UdeMy Business, which gave our people access to over 19,000 quality courses covering computer and productivity skills, people and leadership skills, as well as courses to prepare for professional and technical certifications.

Gender diversity continued to thrive at BCU Bank this year with 70% of senior leadership roles at BCU occupied by women. Our focus remains to nurture and grow a culture that allows everyone to be their best and we want all our people who work at BCU to reflect and represent the many communities we serve.



Looking forward

As I reflect on 2023, I'm optimistic about the year ahead. With the expectations of banks shifting in recent years, we know our members want us to deliver a better service that is more relevant, simplified, and purposeful. They place their trust in BCU by choosing to bank with us and we will work to maintain this trust by continuing to invest in building the capability of the bank through our people, financial inclusion, and a continued focus on digital transformation.

We have a long-term track record of delivering value for our members and my team and I are focused on continuing that record and we are all excited by the opportunity ahead.

I would like to thank the BCU team for their work across 2023, and our members for choosing to bank with us. I am grateful for the support I received in my first year as General Manager, and I look forward to guiding BCU to become our members' preferred partner on life's financial journey.



Mark Smyth
General Manager
BCU Bank

General Manager P&N Bank Report

In what has been another successful year for P&N Bank, I'm proud to deliver this report which highlights our achievements throughout the year in delivering a suite of products and services designed to help our members get ahead in life.

Our performance remained strong during the year, with P&N welcoming more than 12,000 new members to the benefits of customer-owned banking. Our brand presence and advocacy continued to thrive, with 9 out of 10 members willing to recommend P&N to their family and friends.

Empowering our members

One of the highlights of the year was without doubt P&N Bank winning two DBM Australian Financial Awards for Best Customer Service and Most Recommended Consumer Bank. This was an incredible result, highlighting the exceptional work of our teams, especially as the awards measure all banks in Australia, including the major banks. Further testament to our passion to provide members with the very best service and experience, P&N's broker team were back-to-back winners of the Mutual/Credit Union Lender Award at the Mortgage and Finance Association of Australia's WA state Excellence Awards held in June.

With over 48,400 members using our digital banking app, investment in P&N's digital offerings continued during the year. We launched a personalised dashboard on our mobile banking app, providing members with a quicker and easier view of their balances and financial position. Functionality was also added to both our mobile app and Internet Banking to give members the ability to self-serve changes to their home loan repayment amounts.

We were proud to be among the first banks in Australia to launch a new personal financial empowerment tool - mymo by P&N Bank - to our members in October. Through the mymo app, P&N members can access a range of powerful money management and financial wellbeing tools and gain greater control of their overall financial wellbeing.

To complement our mymo app, alongside our wider suite of digital banking tools, we will soon be launching a new portal that offers financial literacy tools to support members in improving their financial wellness score. We look forward to sharing more on this soon.

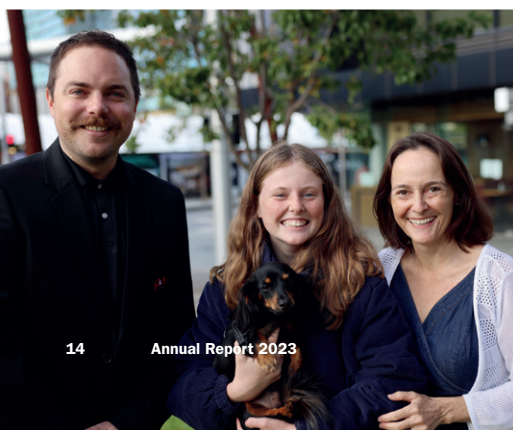
Underpinned by our purpose, we continued to focus on delivering more inclusive banking experiences and were excited to launch a Power of Language Guide for our people which was mentioned earlier in this report. This tool will enable a more inclusive and positive experience for our members when interacting with our P&N teams.

This was the third year P&N participated in the Australian Government Home Guarantee Scheme. An important initiative aimed at supporting eligible home buyers to purchase a home sooner, we assisted a number of single parent families through the Family Home Guarantee and funded more than 200 loans through the First Home Guarantee. In addition, we have supported another 575 first home buyers realise their dream of owning their own home.

The Reserve Bank of Australia increased the cash rate on ten occasions during the year and we know this impact has been felt by our members, not least those borrowers that are coming off fixed rate home loans. We have been actively contacting members affected to discuss their financial position and ensure they are prepared for the financial impact of the transition.

In the community

In the eight years P&N Bank's Helping & grants program has been operating, we have donated more than \$600,000 to 230 unique West Australian charities and community groups and 360 individuals in need. This year alone, over 60 individuals in need were supported and 30 local not-for-profits and community groups which provide support in the areas of family violence, mental health, disability, poverty and homelessness, welfare services and environmental protection to name a few.





A donation of \$15,000 was provided to the Lord Mayor's Distress Relief Fund appeal for the Kimberley floods, where over 100 homes and thousands of people were affected by the devastating impact of ex-tropical cyclone Ellie. P&N members in the Kimberley region also received check-in calls from our team offering banking assistance.

Support of local food-relief charity, Manna, was directed to their School Breakfast Program which provides 5,000 breakfasts to students at 50 schools in areas of need throughout Perth. P&N's Happy Bellies fundraising appeal saw us raise \$22,000 together with our members to support the provision of breakfasts and emergency lunches to students. Over 400 breakfast food items were also donated by members in collection boxes located at P&N branches.

P&N Bank was again a major sponsor of the 2022 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 are also pleased to announce the renewal of our sponsorship with the Perth Wildcats for the 2023/24 and 2024/25 seasons and look forward to cheering them on from the sidelines.

Our people

We would not have such strong member advocacy without the consistent and genuine support of our people. I'm so proud of the efforts of the P&N team in going above and beyond for our members, and I can't thank them enough for their dedication throughout the year.

Our strong P&N culture is testament to our high employee engagement and a reflection of the value we place on the ways we are different to the big banks in how we work with each other, our members, and our community.

We continue to focus on developing, growing, and supporting our people in order to retain our valued employees, to ensure we can offer our members the best possible customer service each and every day.



Looking forward

As we look to the year ahead, we will be continuing to prioritise financial inclusion for our members and the wider community. Our focus will be on the ways in which P&N can help support the Western Australian community's financial wellness and education through the delivery of online support, education tools, and community engagement and partnerships.

We will soon be launching our Customer Charter, which will provide our people and our members with a clear understanding of what to expect from us when it comes to our products, services, standards of quality and conflict resolution.

Together with the rest of the P&N Bank team, I'm committed to continuing to create exceptional experiences for our members and encourage you to reach out at any time to share your positive experiences or feedback on areas we could improve.

My team and I look forward to working on your behalf in the coming year.



Angela Newland
General Manager P&N Bank



...the kindness you
...to my son
...for encourage
...to develop ge
...many managem
...habits and skills

...ment
...all are
...kind of
...help to
...through
...members.



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 2023.

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 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.

Julie 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. Board Governance and Remuneration Committee Chair and Audit Committee member.

Andrew HADLEY

BCom GAICD SFFin

A seasoned financial services executive, CEO of the Bank since 2014 and Executive Director of the Bank since 2016.

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

Trevor 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 and Board Governance and Remuneration Committee member.

Louise CLARKE

BBus GAICD

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

Gary HUMPHREYS

GAICD AMP173

Director and Senior Executive with over 20 years' experience leading and operating large corporations as deputy CEO and COO. Audit Committee Chair and Risk Committee member.

Monish PAUL

MAICD MBA, BBus

Professional with 25 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.

Each Director holds one member share in the Bank.

Company Secretary

David (Verran) FEHLBERG

BEC(Acc), LIB, MBA, GAICD

Mr Fehlberg has more than 20 years' experience working in Australia and internationally, in governance, legal and risk roles.

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 must be comprised of at least 5 directors, being:
 - at least three member elected directors;
 - any board appointed directors, provided that at all times the number of member elected directors shall exceed the number of board appointed directors; and
 - if the Board so determines, the Chief Executive Officer;
- the Board comprises of members with an appropriate range of expertise, skills and qualifications; and
- each Board member maintains their own skills relevant to the business of the Bank.

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2023 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								
T J Hunt	8	8	*	*	7	7	6	6
L A Clarke	8	8	*	*	7	7	6	6
G C Humphreys	8	8	6	6	7	7	*	*
M Paul	8	8	6	6	7	6	*	*
Board appointed directors								
S C Targett**	8	8	**	**	**	**	**	**
J A Elliott	8	8	6	6	*	*	6	6
Chief Executive Officer (executive director)								
A D Hadley***	8	8	*	*	*	*	*	*

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.

* 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 meetings of the Audit Committee, Risk Committee and Board Governance and Remuneration Committee.

The Nominations Committee also met twice during the year, chaired each time by Ms Clarke.

Report of the Directors

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;
- providing informed feedback to the Board on its performance;
- establish a framework to assist the Board with the assessment of the performance of each Director and the Chief Executive Officer; and
- 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 manage and mitigate risks to the organisation.

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

- clearly defined risk appetite;
- 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

As Australia emerged from COVID-19 and historical low interest rates, the Australian Reserve Bank increased the Official Cash Rate 10 times during the financial year. The effect of rising interest rates contributed to the increased cost of living for many Australians. Against this backdrop, the Group was able to grow its market share by carefully balancing our response to the rising interest rates for both our borrowers and depositors.

Key highlights for the year include:

- Group Profit After Tax grew 18% to \$19.5m.
- Successful go-live of several new platforms and capabilities delivered through our Transformation program.
- Successful rebranding of the bcu brand to BCU Bank.

Outlook

With positive signs that inflation is reducing, we expect that the interest rate cycle is approaching its peak. The higher interest rates are expected to contribute to a worsening credit environment and a projected slowdown in lending growth. The Group is well capitalised and continues to provision prudently for expected credit losses.

Significant Changes

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 secretary and employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract and the nature of liabilities it covers is prohibited by a confidentiality clause in the contract.

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 page 22.

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.



Stephen Targett
Director



Gary Humphreys
Director

Date: 29 August 2023
PERTH WA

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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 2023, 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



Darren Scammell
Partner – Audit & Assurance

Melbourne, 29 August 2023

www.grantthornton.com.au
ACN-130 913 594

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Financial Report

Statements of Profit or Loss

Year Ended 30 June 2023	Notes	Group		Bank	
		2023 \$000	2022 \$000	2023 \$000	2022 \$000
Interest revenue	3	300,781	162,656	357,545	182,536
Interest expense	3	142,265	26,181	207,284	54,057
Net interest income		158,516	136,475	150,261	128,479
Non-interest revenue	4	13,878	12,574	21,648	19,906
Gain on sale of financial assets held at amortised cost		-	2,223	-	2,223
Other income		1,454	1,064	1,259	968
Total non-interest revenue and other income		15,332	15,861	22,907	23,097
Total income		173,848	152,336	173,168	151,576
Credit impairment charge/(reversal)	5	818	(663)	818	(642)
Other expenses	6	144,975	129,826	144,547	129,119
Total expenditure		145,793	129,163	145,365	128,477
Profit before income tax		28,055	23,173	27,803	23,099
Income tax expense	7	8,578	6,616	8,409	6,588
Profit after income tax		19,477	16,557	19,394	16,511
(Profit)/loss attributable to non-controlling interests		11	(11)	-	-
Profit attributable to members		19,488	16,546	19,394	16,511

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 2023	Notes	Group		Bank	
		2023 \$000	2022 \$000	2023 \$000	2022 \$000
Profit for the year from operations		19,477	16,557	19,394	16,511
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)	3,599	8,906	3,599	8,906
Income tax relating to these items		(1,080)	(2,672)	(1,080)	(2,672)
<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 investments held at FVOCI	28(d)	(292)	1,678	-	1,678
Income tax expense relating to these items		88	(997)	-	(844)
Other comprehensive income for the period, net of tax		2,315	8,560	2,519	8,206
Total comprehensive income for the period		21,792	25,117	21,913	24,717
Total comprehensive income/(loss) for the year is attributable to:					
Members of the Bank		21,803	25,106	21,913	24,717
Non-controlling interests		(11)	11	-	-
		21,792	25,117	21,913	24,717

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

Statements of Financial Position

As at 30 June 2023	Notes	Group		Bank	
		2023	2022	2023	2022
		\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents	8	309,257	167,898	221,739	90,466
Receivables due from other financial institutions	9	1,133,288	1,217,277	1,133,288	1,217,277
Financial Assets held at FVOCI ⁽ⁱ⁾	10	10,447	10,740	10,380	10,380
Other assets	11	14,867	18,690	14,599	17,960
Current tax assets		1,503	3,419	1,497	3,304
Other financial assets held at AC ⁽ⁱⁱ⁾	12	566	1,119	566	575
Other financial assets held at FVPL ⁽ⁱⁱⁱ⁾	13	65	67	47,267	14,931
Loans and advances	14	6,670,693	5,839,939	6,670,693	5,839,939
Derivative financial instruments	16	18,791	16,653	18,263	15,730
Due from controlled entities	17	-	-	59,754	67,769
Property and equipment	18	22,746	26,992	20,918	25,133
Right-of-use assets	19	28,121	29,066	28,121	29,066
Investments in controlled entities	20	-	-	3,835	3,835
Intangible assets	21	24,163	13,254	24,163	13,254
Deferred tax assets	22	-	4,005	-	4,285
Total assets		8,234,507	7,349,119	8,255,083	7,353,904
Liabilities					
Members' deposits	23	6,384,785	5,747,374	6,386,648	5,751,546
Other payables	24	12,179	21,319	10,695	20,661
Provisions	26	9,192	8,452	9,192	8,452
Lease liabilities	19	33,750	34,674	33,750	34,674
Derivative financial instruments	16	5,619	8,176	5,619	8,176
Borrowings	25	1,209,707	968,782	553,994	574,261
Due to controlled entities	17	-	-	677,019	396,891
Deferred tax liabilities	27	1,999	-	1,784	-
Total liabilities		7,657,231	6,788,777	7,678,701	6,794,661
Net assets		577,276	560,342	576,382	559,243
Members' funds					
Reserves	28	232,987	230,648	234,794	232,251
Retained earnings	28	118,878	104,242	116,929	102,303
Contributed equity	28	150,719	150,719	150,719	150,719
Issued capital	28	73,940	73,970	73,940	73,970
Non-controlling interests		752	763	-	-
Total members' funds		577,276	560,342	576,382	559,243

(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 2023	Notes	Group						Total equity
		Attributable to Members of Police & Nurses Limited					Non-controlling interests	
		Reserves	Contributed equity	Issued Capital	Retained earnings	Total		
		\$000	\$000	\$000	\$000	\$000	\$000	
Total member's funds (equity) as at 1 July 2021		222,062	150,719	-	87,731	460,512	751	461,263
Profit/(loss) 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
Opening adjustment		-	-	-	(484)	(484)	-	(484)
Total member's funds (equity) as at 1 July 2022		230,648	150,719	73,970	103,758	559,095	763	559,858
Profit/(loss) for the year		-	-	-	19,488	19,488	(11)	19,477
Other comprehensive income/(loss)		2,315	-	-	-	2,315	-	2,315
Total comprehensive income for the year		2,315	-	-	19,488	21,803	(11)	21,792
Capital note issuance costs	28(f)	-	-	(30)	-	(30)	-	(30)
Dividends provided for or paid on capital note	29	-	-	-	(4,344)	(4,344)	-	(4,344)
Amount transferred to share capital reserve	28(b)	24	-	-	(24)	-	-	-
Transactions with owners in their capacity as owners		24	-	(30)	(4,368)	(4,374)	-	(4,374)
Total member's funds (equity) as at 30 June 2023		232,987	150,719	73,940	118,878	576,524	752	577,276

Year Ended 30 June 2023	Notes	Bank				
		Reserves	Contributed equity	Issued Capital	Retained earnings	Total
		\$000	\$000	\$000	\$000	\$000
Total member's funds (equity) as at 1 July 2021		224,020	150,719	-	85,829	460,568
Profit/(loss) 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
Opening adjustment		-	-	-	(400)	(400)
Total member's funds (equity) as at 1 July 2022		232,251	150,719	73,970	101,903	558,843
Profit/(loss) for the year		-	-	-	19,394	19,394
Other comprehensive income/(loss)		2,519	-	-	-	2,519
Total comprehensive income for the year		2,519	-	-	19,394	21,913
Capital note issuance costs	28(f)	-	-	(30)	-	(30)
Dividends provided for or paid on capital note	29	-	-	-	(4,344)	(4,344)
Amount transferred to share capital reserve	28(b)	24	-	-	(24)	-
Transactions with owners in their capacity as owners		24	-	(30)	(4,368)	(4,374)
Total member's funds (equity) as at 30 June 2023		234,794	150,719	73,940	116,929	576,382

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

Statements of Cash Flows

Year Ended 30 June 2023	Notes	Group		Bank	
		2023 \$000	2022 \$000	2023 \$000	2022 \$000
Cash flows from operating activities					
Interest received from loans		257,960	154,825	257,960	154,825
Bad debts recovered		283	437	283	437
Interest received from investments		42,821	7,831	99,584	27,711
Commissions and other income received		14,753	14,281	21,569	18,779
Borrowing costs - members		(115,364)	(20,075)	(115,376)	(20,076)
Net movement in interest rate swaps		3	3	(392)	926
Borrowing costs - financial institutions and SPVs		(26,902)	(6,106)	(91,908)	(33,981)
Interest paid		(1,235)	(1,347)	(1,235)	(1,347)
Payments to employees and suppliers		(142,965)	(116,611)	(143,135)	(114,776)
Income taxes paid		(1,428)	(8,126)	(1,568)	(7,430)
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities		27,926	25,112	25,782	25,068
(Increase)/decrease in operating assets					
Net (increase)/decrease in balance of loans and other receivables		(824,802)	(484,836)	(824,850)	(484,815)
Net decrease/(increase) in receivables due from other financial institutions		83,968	29,124	83,968	29,124
(Increase)/decrease in operating liabilities					
Net increase in balance of deposits		637,446	276,913	635,135	279,087
Net increase/(decrease) in borrowings from other financial institutions		240,925	44,200	(20,267)	(131,724)
Net cash inflow/(outflow) from operating activities	30	165,463	(109,487)	(100,232)	(283,260)
Cash flows from investing activities					
Dividends received		407	1,140	1,152	1,901
Proceeds from settlement of financial assets held at AC		544	16,471	-	-
Proceeds from sale of property and equipment		2,135	775	2,135	754
Gross proceeds from sale/(payments) for financial assets held at FVOCI		4	7	4	7
Payments for property and equipment		(3,671)	(3,369)	(3,671)	(3,360)
Payments for intangible assets		(12,467)	(9,857)	(12,467)	(9,857)
(Loans to)/repayments from controlled entities		-	-	287,745	197,003
Net cash inflow/(outflow) from investing activities		(13,048)	5,167	274,898	186,448
Cash flows from financing activities					
Principal element of lease payments		(6,658)	(6,412)	(6,658)	(6,412)
Member shares issued		166	120	166	120
Member shares redeemed		(190)	(147)	(190)	(147)
Proceeds from capital note net of issue costs		(30)	73,970	(30)	73,970
Securitisation notes (purchased)/sold		-	-	(32,337)	989
Dividends paid to Capital Note Holders		(4,344)	-	(4,344)	-
Net cash inflow/(outflow) from financing activities		(11,056)	67,531	(43,393)	68,520
Net increase/(decrease) in cash and cash equivalents held		141,359	(36,789)	131,273	(28,292)
Cash and cash equivalents at the beginning of the year		167,898	204,687	90,466	118,758
Cash and cash equivalents at the end of the year	8	309,257	167,898	221,739	90,466

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; and
- 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.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise of 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.

(c) Loan provisioning

The Group applies a three stage approach in measuring Expected Credit Losses (ECLs) based on changes in the financial assets underlying credit risk and includes forward looking or macroeconomic conditions.

ECLs are estimated on a collective basis for exposures in Stage 1 and Stage 2, and on either a collective or individual basis when transferred to Stage 3.

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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 capitalised when the project meets the recognition criteria of AASB 138 Intangible Assets. When the intangible asset is determined as ready for use it is transferred from WIP into the respective intangible asset category. Judgement is used on an asset-by-asset basis to determine when the asset is ready for use.

Management determines the asset as ready for use, 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. This primarily includes the Transformation Program and immaterial other internal projects, such as regulatory change projects. These projects are only recognised to the extent they meet the criteria in (a) above and are amortised from the date the assets are transferred to the respective intangible asset category.

Software as a Service (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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Intangible assets (continued)

Software as a Service (SaaS) – internal project related

Where costs incurred to configure or customise SaaS platforms result in the creation of a 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. They are 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
- the 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 AASB 138 recognition criteria 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 accrued 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, 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; and
- Securitisation service fees.

(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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Business combinations (continued)

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 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 non-lease 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 payments 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:

- 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 can be 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provisions (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(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 Group, continue to be recognised on the Statements of Financial Position and the sale proceeds are recognised as a financial liability within borrowings. The Group 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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 Group 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.

Additionally, the Group applies the three-stage model to Loans and 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 Other financial assets held 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 Group 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Impairment of financial assets (continued)

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.

(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 recognised at cost less charges associated with the issue of the instrument (net of deferred tax).

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 post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal group(s) constituting the discontinued operation.

(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 2023 reporting periods and have been adopted early by the Group.

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

At the date of authorisation of these consolidated financial statements, several new but not yet effective standards, amendments to existing standards and interpretations have been published by the AASB, IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Group and no Interpretations have been issued that are applicable and need to be taken into consideration by the Group at either reporting date.

New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group’s consolidated financial statements.

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(z) 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(z).

(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) 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.

(iv) Effective interest rate adjustment

Loans and Advances are carried at amortised cost, requiring estimates to be made of their expected useful lives. The expected life of mortgage secured loans is used to estimate all loans in the loan portfolio. Refer to note 1(r) for additional detail on the effective interest rate adjustment applied to loan origination fees and transaction costs.

(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 2023	Group					
	2023		2022		Average interest rate	
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⁾	1,092,250	42,821	3.92%	1,149,301	7,831	0.68%
Loans and advances ⁽ⁱⁱ⁾	6,268,433	257,960	4.12%	5,609,200	154,825	2.76%
	7,360,683	300,781	4.09%	6,758,501	162,656	2.41%
Interest-bearing liabilities						
Members' deposits ⁽ⁱⁱⁱ⁾	5,586,476	115,363	2.07%	5,360,711	20,075	0.37%
Borrowings from other banks/ADIs ⁽ⁱ⁾	1,251,932	26,902	2.15%	956,567	6,106	0.64%
	6,838,408	142,265	2.08%	6,317,278	26,181	0.41%

	2023 \$000	2022 \$000
Analysis of net interest income		
Net interest income	158,516	136,475
Average interest-earning assets	7,360,683	6,758,501
Net interest margin ^(iv)	2.15%	2.02%
Spread ^(v)	2.01%	2.00%

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 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
4 NON-INTEREST REVENUE				
Loan fee revenue	2,925	2,894	2,925	2,894
Financial services fees	4,536	2,848	4,561	2,700
Other fee revenue	-	16	-	16
Securitisation servicing fees	-	-	7,400	7,169
Insurance commissions	2,577	2,576	2,577	2,576
Other commissions	3,433	3,100	3,433	3,100
Dividend revenue	407	1,140	752	1,451
	13,878	12,574	21,648	19,906

Notes to the Financial Statements

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
5 CREDIT IMPAIRMENT CHARGE/(REVERSAL)				
Receivables due from other financial institutions	22	(238)	22	(238)
Other financial assets held at AC	-	1,514	-	-
Loans and advances	1,026	(1,179)	1,026	(1,179)
Due from controlled entities	-	-	-	1,535
Undrawn credit commitments	53	(323)	53	(323)
Bad debts recovered	(283)	(437)	(283)	(437)
	818	(663)	818	(642)

CREDIT IMPAIRMENT CHARGE/(REVERSAL) BY STAGES

Collective stage 1	(1,665)	(2,861)	(1,665)	(2,861)
Collective stage 2	485	(56)	485	(56)
Collective stage 3	1,122	(123)	1,122	(123)
Individual stage 3	1,159	2,814	1,159	2,835
Bad debts recovered	(283)	(437)	(283)	(437)
	818	(663)	818	(642)

OF WHICH RELATES TO LOANS AND ADVANCES

Collective stage 1	(1,690)	(2,623)	(1,690)	(2,623)
Collective stage 2	485	(56)	485	(56)
Collective stage 3	1,122	(123)	1,122	(123)
Individual stage 3	1,159	1,293	1,159	1,293
Total inclusive of undrawn credit commitments	1,076	(1,509)	1,076	(1,509)
Undrawn credit commitments	(50)	330	(50)	330
Total loans and advances	1,026	(1,179)	1,026	(1,179)

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
6 OTHER EXPENSES				
Finance costs	1,235	1,347	1,235	1,347
Depreciation and amortisation	13,165	13,041	13,134	13,017
Fees and commissions	18,143	14,118	17,900	13,869
Employee benefits expense	74,893	67,562	74,893	67,462
Information technology costs	14,818	13,541	14,818	13,513
Marketing costs	7,299	6,282	7,299	6,282
Other general and administration costs	15,288	13,189	15,134	12,887
Net (gain)/loss on disposal or revaluation loss of property, plant and equipment	134	746	134	742
	144,975	129,826	144,547	129,119

Notes to the Financial Statements

Year Ended 30 June 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
7 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax expense/(benefit)	6,831	6,045	6,661	6,505
Deferred tax expense/(benefit)	1,685	510	1,686	(54)
Under/(over) provided for current tax in prior years	62	61	62	137
Income tax expense	8,578	6,616	8,409	6,588
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 22)	1,106	39	1,107	(525)
(Decrease)/Increase in deferred tax liabilities (note 27)	579	471	579	471
	1,685	510	1,686	(54)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	28,055	23,173	27,803	23,099
Prima facie income tax calculated at 30% (2022: 30%)	8,417	6,952	8,341	6,930
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	123	68	123	68
Tax offset for franked dividends	(118)	(475)	(106)	(429)
Intragroup dividends	-	-	(120)	(135)
Fines and penalties	-	1	-	1
Other	95	9	108	16
	8,517	6,555	8,346	6,451
Prior year losses recouped				
(Over)/under provision in prior year, relating to:				
- Other	61	61	63	137
Income tax expense	8,578	6,616	8,409	6,588
(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) & (note 27)	967	3,228	1,055	3,076
(d) Franking credits				
Franking credits based on a tax rate of 30%	174,825	175,069	174,065	174,169
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;				
(ii) franking debits that will arise from the refund receivable of the amount of the current tax asset; and				
(iii) franking credits used for the payment of Capital Note distributions.				

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 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

8 CASH AND CASH EQUIVALENTS

Cash on hand	4,476	4,838	4,476	4,838
Cash and deposits at call with ADIs	304,781	163,060	217,263	85,628
	309,257	167,898	221,739	90,466

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 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

9 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

Interest-earning deposits with ADIs	1,133,697	1,217,665	1,133,697	1,217,665
	1,133,697	1,217,665	1,133,697	1,217,665
Expected credit loss provision	(409)	(388)	(409)	(388)
	1,133,288	1,217,277	1,133,288	1,217,277

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

The ECL provision of \$409,068 (2022: \$388,000) belongs to stage 1 collective, accounts with arrears up to 29 days.

The fair value of receivables due from other financial institutions are \$1,129,497,919 (2022: \$1,209,925,000).

The Bank has pledged \$40,700,000 (2022: \$81,055,000) of receivables due from financial institutions as collateral as part of entering repurchase agreements with the Reserve Bank of Australia as at 30 June 2023. 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 2023

Group		Bank	
2023	2022	2023	2022
\$000	\$000	\$000	\$000

10 FINANCIAL ASSETS HELD AT FVOCI

Investment in Cuscal (a)	8,983	8,983	8,983	8,983
Investment in Indue Ltd	1,397	1,397	1,397	1,397
Investment in other shares	67	360	-	-
	10,447	10,740	10,380	10,380

(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 2023

Group		Bank	
2023	2022	2023	2022
\$000	\$000	\$000	\$000

11 OTHER ASSETS

Prepayments	6,722	4,780	6,722	4,780
Other receivables	8,145	13,910	7,877	13,180
	14,867	18,690	14,599	17,960

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 2023

Group		Bank	
2023	2022	2023	2022
\$000	\$000	\$000	\$000

12 OTHER FINANCIAL ASSETS HELD AT AC

Land and property development receivables	-	544	-	-
Other financial receivables	566	575	566	575
	566	1,119	566	575
Expected credit loss provision	-	-	-	-
	566	1,119	566	575

Expected credit loss provision

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

In the previous financial year, the land and property development included a \$544,000, 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) in the prior period.

Notes to the Financial Statements

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

13 OTHER FINANCIAL ASSETS AT FVPL

Investment in Securitisation Notes	-	-	47,264	14,927
Investment in Land and property development - Other	62	63	-	-
Investment Other	3	4	3	4
	65	67	47,267	14,931

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

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

14 LOANS AND ADVANCES

Home loans	6,212,424	5,397,665	6,212,424	5,397,665
Secured overdrafts	39,115	46,276	39,115	46,276
Personal loans	35,522	33,989	35,522	33,989
Overdraft & credit cards	37,702	39,517	37,702	39,517
Retail loans and advances	6,324,763	5,517,447	6,324,763	5,517,447
Commercial & property finance	328,499	314,420	328,499	314,420
Gross loans and advances	6,653,262	5,831,867	6,653,262	5,831,867
Effective interest rate adjustment *	23,747	14,518	23,747	14,518
Expected credit loss provision (table (a))	(6,316)	(6,446)	(6,316)	(6,446)
Net loans and advances	6,670,693	5,839,939	6,670,693	5,839,939

* 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 in interest income over the effective life of the loans. It also includes the amortisation of the Group's deferred origination fees and transaction costs.

- 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.

As at 30 June 2023, the fair value of Loans and Advances is \$12,963,000 higher (2022: \$13,752,000 lower) 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 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
Time to maturity				
Not later than one year	175,427	162,567	175,427	162,567
One year to five years	118,726	121,701	118,726	121,701
Over five years	6,359,109	5,547,599	6,359,109	5,547,599
	6,653,262	5,831,867	6,653,262	5,831,867

Year Ended 30 June 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
Securitised Loans under management				
Pinnacle Series Trust 2014-SST	1,385,492	1,380,055	1,385,492	1,380,055
Pinnacle RMBS Warehouse Trust	436,077	42,571	436,077	42,571
Pinnacle Series Trust 2017-T1	65,151	91,342	65,151	91,342
Pinnacle Series Trust 2021-T1	182,250	261,333	182,250	261,333
	2,068,970	1,775,301	2,068,970	1,775,301

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

During the period, the Pinnacle RMBS Warehouse Trust drew \$325m on the securitisation facility with Australia and New Zealand Banking Group Limited.

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 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
(a) Total loan expected credit loss provision				
Collective stage 1	3,078	4,221	3,078	4,221
Collective stage 2	496	18	496	18
Collective stage 3	1,155	40	1,155	40
Individual stage 3	1,587	2,167	1,587	2,167
	6,316	6,446	6,316	6,446
of which relates to undrawn credit commitments	(574)	(1,005)	(574)	(1,005)
	5,742	5,441	5,742	5,441
(b) On balance sheet loans				
Opening balance	5,441	7,992	5,441	7,992
Bad debts previously provided for written off	(725)	(1,378)	(725)	(1,377)
Credit Impairment charge/(reversal) during the year	1,026	(1,173)	1,026	(1,174)
Closing balance	5,742	5,441	5,742	5,441

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 2021	625	9,746	7,997	-	1,166	19,534
Credit Impairment charge/(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
Credit Impairment charge/(reversal)	22	-	1,026	-	53	1,101
Amounts written off, previously provided for	-	-	(725)	-	(481)	(1,206)
Balance as at 30 June 2023	409	-	5,742	-	574	6,725

	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 2021	625	-	7,996	9,746	1,166	19,533
Credit Impairment charge/(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
Credit Impairment charge/(reversal)	22	-	1,026	-	53	1,101
Amounts written off, previously provided for	-	-	(725)	-	(481)	(1,206)
Balance as at 30 June 2023	409	-	5,742	-	574	6,725

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

Economic conditions were challenging this financial year with continued inflation pressures, which have been the primary catalyst for the increase in the official cash rates from early calendar year 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 an unbiased probability-weighted range of possible future outcomes in estimating the Group's total ECL. Internal expertise and Westpac data is reviewed and considered when generating the 5-year macroeconomic scenarios.

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 is forecast to remain stable in WA at 3.75% and peak in NSW at 4.50% in Q3 financial year 2024. WA and NSW unemployment forecasts are completed as PNL's lending activities are predominantly in these two states.
- Inflation is forecast to have passed its peak of 6.9% (Consumer Price Index, seasonally adjusted) in Q2 financial year 2023. It is forecast to continue to gradually decline to 3.25% by Q4 2024 and 2.50% by Q1 2026.

Trending performance of these macroeconomic inputs are considered in the ECL model to inform a provision based on the trend of the country's economy. 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 \$6,095,802 compared to \$6,264,938 provision for impairment recognised as at 30 June 2023. 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 \$7,334,523 as of 30 June 2023.

COVID-19 Support Offered

The group continued to offer COVID-19 support during the previous period. Demand declined significantly with a relief program offered for a period of three months. The relief program offered loan repayment deferrals. The relief was offered to impacted members who passed eligibility criteria, confirming impacts due to the pandemic have resulted in reduced working hours or a loss of employment. Previous COVID-19 relief members returned to performing loans or are being managed in collections.

COVID-19 repayment deferrals ceased in FY23 and are no longer offered.

Hardship relief continues to be offered to members who require additional support.

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2023

	Group				Total
	Stage 1	Stage 2	Stage 3		
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Individual provision Lifetime ECL	
	\$000	\$000	\$000	\$000	\$000
(a) LOAN AND ADVANCES					
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 operations	(2,623)	(56)	(123)	1,293	(1,509)
Balance at 30 June 2022	4,221	18	40	2,167	6,446
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	556	(9)	(14)	(533)	-
Transferred to Lifetime ECL - not credit impaired	(3)	8	(1)	(4)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(4)	(5)	11	(2)	-
Transferred to Lifetime ECL - credit impaired - specific provision	(2)	(1)	(3)	6	-
Bad debts written off	-	-	-	(1,206)	(1,206)
Charge/(reversal of impairment) to income statement from operations	(1,690)	485	1,122	1,159	1,076
Balance at 30 June 2023	3,078	496	1,155	1,587	6,316

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

(b) OTHER FINANCIAL ASSETS HELD AT AC

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	-	-	-	-	-
Impairment expense/(reversal)	-	-	-	-	-
Amounts written off, previously provided for	-	-	-	-	-
Balance at 30 June 2023	-	-	-	-	-

Other financial assets held at AC included 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 was 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 previous financial year.

Notes to the Financial Statements

15 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2023

	Bank				Total
	Stage 1	Stage 2	Stage 3		
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Individual provision Lifetime ECL	
	\$000	\$000	\$000	\$000	\$000
(c) LOAN AND ADVANCES					
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 operations	(2,623)	(56)	(123)	1,293	(1,509)
Balance at 30 June 2022	4,221	18	40	2,167	6,446
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	556	(9)	(14)	(533)	-
Transferred to Lifetime ECL - not credit impaired	(3)	8	(1)	(4)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(4)	(5)	11	(2)	-
Transferred to Lifetime ECL - credit impaired - specific provision	(2)	(1)	(3)	6	-
Bad debts written off	-	-	-	(1,206)	(1,206)
Charge/(reversal of impairment) to income statement from operations	(1,690)	485	1,122	1,159	1,076
Balance at 30 June 2023	3,078	496	1,155	1,587	6,316

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

(d) DUE FROM/TO CONTROLLED ENTITIES

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	-	-	-	-	-
Changes due to financial assets recognised in the opening balances that have:					
Impairment expense/(reversal)	-	-	-	-	-
Amounts written off, previously provided for	-	-	-	-	-
Balance at 30 June 2023	-	-	-	-	-

Due from/to controlled entities included a material 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 in the prior 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 prior period.

Notes to the Financial Statements

16 DERIVATIVE FINANCIAL INSTRUMENTS

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	Fair value	Fair value	Fair value	Fair value
	\$000	\$000	\$000	\$000

(i) Fair value

Derivative financial assets				
Interest rate swaps - fair value through profit or loss - assets	528	923	-	-
Interest rate swaps - held as cash flow hedges - assets	18,263	15,730	18,263	15,730
	18,791	16,653	18,263	15,730
Derivative financial liabilities				
Interest rate swaps - fair value through profit or loss - liabilities	534	926	534	926
Interest rate swaps - held as cash flow hedges - liabilities	5,085	7,250	5,085	7,250
	5,619	8,176	5,619	8,176

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	Notional Amount	Notional Amount	Notional Amount	Notional Amount
	\$000	\$000	\$000	\$000

(ii) Notional amount

Derivative financial assets				
Interest rate swaps - fair value through profit or loss - assets	19,514	27,993	-	-
Interest rate swaps - held as cash flow hedges - assets	772,500	431,000	772,500	431,000
	792,014	458,993	772,500	431,000
Derivative financial liabilities				
Interest rate swaps - fair value through profit or loss - liabilities	19,514	27,993	19,514	27,993
Interest rate swaps - held as cash flow hedges - liabilities	161,500	341,500	161,500	341,500
	181,014	369,493	181,014	369,493

(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 \$792,014,000 (2022: \$458,993,000), on which it pays 0.22% to 3.83% interest (2022: 0.11% to 3.70%) 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 \$772,500,000 (2022: \$431,000,000), on which it pays 0.22% to 3.83% interest (2022: 0.11% to 3.70%) and receives interest calculated at a variable rate on the notional amount.

The Group receives fixed interest on swaps with a notional amount of \$181,014,000 (2022: \$369,493,000), on which it receives 0.19% to 3.92% interest (2022: 0.19% to 2.59%) 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 \$181,014,000 (2022: \$369,493,000), on which it receives 0.19% to 3.92% interest (2022: 0.25% to 1.84%) 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 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
Maturity period				
Less than one year	-	21	-	21
More than one year but less than two years	(2,502)	(2,349)	(2,502)	(2,349)
More than two years but less than five years	(6,340)	(3,985)	(6,340)	(3,985)
Five years or more	296	286	296	286
Net Deferred (gains)/losses (note 28(c))	(8,546)	(6,027)	(8,546)	(6,027)

(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 2023	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

17 DUE FROM/TO CONTROLLED ENTITIES

Due from controlled entities (assets)

Amounts receivable from controlled entities	-	-	246	2,824
Deferred securitisation receivable	-	-	59,508	64,945
	-	-	59,754	67,769
Expected credit loss provision (a)	-	-	-	-
	-	-	59,754	67,769

(a) Expected credit loss provision

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

Due to controlled entities (liabilities)

Amounts payable to controlled entities	-	-	677,019	396,891
	-	-	677,019	396,891

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

As at 30 June 2023, 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 \$1,423,549,000 (2022: \$1,419,567,000) and the gross amounts due from the Pinnacle Series Trust 2014-SST were \$1,445,000,000 (2022: \$1,445,000,000).

The Bank was granted a total secured Term Funding Facility (TFF) by the Reserve Bank of Australia (RBA) for the amount \$251,189,000 (note 32). As at 30 June 2023, the Bank has outstandings of \$190,325,650 (2022: \$200,463,835) against the RBA TFF. As a result, \$227,050,000 (2022: \$236,650,000) out of a total of \$1,283,000,000 (2022: 1,283,000,000) self-securitisation A Notes held, are encumbered.

Notes to the Financial Statements

Year Ended 30 June 2023

Group		Bank	
2023	2022	2023	2022
\$000	\$000	\$000	\$000

18 PROPERTY AND EQUIPMENT

Land and buildings				
At fair value	7,289	9,100	5,439	7,250
Accumulated depreciation	(121)	-	(91)	-
	7,168	9,100	5,348	7,250
Leasehold improvements				
At cost	24,813	23,745	24,813	23,745
Accumulated depreciation	(14,758)	(12,220)	(14,758)	(12,220)
	10,055	11,525	10,055	11,525
Equipment				
At cost	14,524	13,245	14,515	13,235
Accumulated depreciation	(9,001)	(6,878)	(9,000)	(6,877)
	5,523	6,367	5,515	6,358
Total property and equipment	22,746	26,992	20,918	25,133

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

Year Ended 30 June 2023

	Group				Bank			
	Land and buildings	Leasehold improvements	Equipment	Total	Land and buildings	Leasehold improvements	Equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
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
Carrying amount at 1 July 2022	9,100	11,525	6,367	26,992	7,250	11,525	6,358	25,133
Additions	76	1,794	1,802	3,672	76	1,794	1,802	3,672
Disposals	(1,870)	(226)	(173)	(2,269)	(1,870)	(226)	(173)	(2,269)
Revaluations	-	-	-	-	-	-	-	-
Depreciation expense	(138)	(3,038)	(2,473)	(5,649)	(108)	(3,038)	(2,472)	(5,618)
Carrying amount at 30 June 2023	7,168	10,055	5,523	22,746	5,348	10,055	5,515	20,918

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, outgoing 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 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
At cost	7,746	8,874	6,404	7,479
Addition	76	93	76	93
Accumulated depreciation	(437)	(314)	(362)	(261)
Disposal	(2,016)	(907)	(2,016)	(907)
Net book value	5,369	7,746	4,102	6,404

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 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
Right-of-use assets				
Buildings	28,121	29,066	28,121	29,066
Net book value	28,121	29,066	28,121	29,066
Lease liabilities	33,750	34,674	33,750	34,674
	33,750	34,674	33,750	34,674

(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 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
Depreciation charge of Right-of-use assets (buildings)	5,957	6,144	5,957	6,144
Interest expense (included in finance cost)	597	573	597	573
Expense relating to outgoing and variable lease payments not included in lease liabilities (included in other general and administration costs)	1,224	1,177	1,224	1,177
Expense related to low value leases or short term leases, exempt from AASB 16 (included in other general and administration costs)	88	109	88	109
Total expenses related to leases	7,866	8,003	7,866	8,003

Significant leasing arrangements

As at 30 June 2023, the Bank has two material 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

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 2023

	Interests in Controlled Entities		Bank Value of Investment in Controlled Entities	
	2023	2022	Held by the Bank 2023	Held by the Bank 2022
	%	%	\$	\$
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 2014 - SST	100	100	-	-
Pinnacle Series Trust 2017 - T1	100	100	-	-
Pinnacle Series Trust 2021 - T1	100	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 136 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 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
21 INTANGIBLE ASSETS				
Internal Projects (i)				
At cost	19,535	11,149	19,535	11,149
Accumulated amortisation	(9,051)	(7,614)	(9,051)	(7,614)
	10,484	3,535	10,484	3,535
Computer Software (ii)				
At cost	2,552	2,552	2,552	2,552
Accumulated amortisation	(2,473)	(2,352)	(2,473)	(2,352)
	79	200	79	200
WIP - Intangible (iii)				
At cost	13,600	9,519	13,600	9,519
Accumulated amortisation	-	-	-	-
	13,600	9,519	13,600	9,519
Total intangible assets	24,163	13,254	24,163	13,254

Reconciliation of the carrying amounts of each class of intangible assets

(i) Internal Projects				
Opening carrying amount	3,535	3,907	3,535	3,907
Additions	8,386	679	8,386	679
Disposals	-	-	-	-
Amortisation charge *	(1,437)	(1,051)	(1,437)	(1,051)
Closing carrying amount	10,484	3,535	10,484	3,535
(ii) Computer software				
Opening carrying amount	200	351	200	351
Additions	-	-	-	-
Disposals	-	-	-	-
Amortisation charge *	(121)	(151)	(121)	(151)
Closing carrying amount	79	200	79	200
(iii) WIP - Intangible				
Opening carrying amount	9,519	341	9,519	341
Additions	12,467	9,857	12,467	9,857
Transfer	(8,386)	(679)	(8,386)	(679)
Amortisation charge *	-	-	-	-
Closing carrying amount	13,600	9,519	13,600	9,519
Total intangible assets	24,163	13,254	24,163	13,254

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

Notes to the Financial Statements

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

22 DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

Provisions for impairment on loans and other receivables	2,018	5,434	2,018	5,434
Derivatives	1,464	2,141	1,464	2,141
Property and equipment	23	15	-	-
Financial assets at FVOCI	70	-	-	-
Lease liabilities	10,125	10,402	10,125	10,402
Provisions	2,758	2,536	2,758	2,536
Accruals	1,424	1,449	1,306	1,300
Capital Notes	275	353	275	353
Other	39	229	314	503
	18,196	22,559	18,260	22,669
Set off to deferred tax liabilities (note 27)	(18,196)	(18,554)	(18,260)	(18,384)
Net deferred tax assets	-	4,005	-	4,285
Movements:				
Opening balance prior to set off	22,559	22,165	22,669	21,702
Adjustment for change in tax estimate related to prior period	(3,352)	(8)	(3,327)	1
Adjusted opening balance	19,207	22,157	19,342	21,703
(Charged)/credited to the income statement (note 7)	(1,106)	(39)	(1,107)	525
(Charged)/credited to equity (note 7) & (note 28)	95	441	25	441
Closing balance prior to set off	18,196	22,559	18,260	22,669
Unrecognised temporary differences:				
Unrecoverable losses not recognised	600	600	-	-
	600	600	-	-

Notes to the Financial Statements

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
23 MEMBERS' DEPOSITS				
Call deposits	3,119,960	3,207,209	3,121,823	3,211,381
Term deposits *	3,263,755	2,533,091	3,263,755	2,533,091
Retirement savings account deposits **	-	5,980	-	5,980
Withdrawable shares	1,070	1,094	1,070	1,094
	6,384,785	5,747,374	6,386,648	5,751,546

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 as interest expense over the effective life of the deposits.

** During the financial period, 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.

The fair value of Members' deposits for the financial year ended June 2023 were \$8,951,000 (2022: \$27,111,000) lower than the carrying value.

Concession Accounts

The Group offers low or no fee transaction accounts that do not have an overdraft facility and are only available to members that hold a Commonwealth concession card and meet the eligibility requirements. The number of members that hold this type of account is 49 (2022: 36).

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	Number of shares	Number of shares	Number of shares	Number of shares
(a) MEMBERS' SHARES				
Number of \$10 shares (fully paid)	104,415	106,733	104,415	106,733
Number of \$10 shares (partially paid \$6)	4,006	4,105	4,006	4,105
Number of \$10 shares (partially paid \$2)	1,072	1,082	1,072	1,082
Number of \$0 shares	560	572	560	572
Number of \$10 on-call shares	69,445	54,856	69,445	54,856
	179,498	167,348	179,498	167,348
Movements:				
Opening number of shares	167,348	159,894	167,348	159,894
New shares issued during the year	16,610	12,043	16,610	12,043
Resignations during the year	(4,460)	(4,589)	(4,460)	(4,589)
Closing balance	179,498	167,348	179,498	167,348

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 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

24 OTHER PAYABLES

Other payables	12,179	21,319	10,695	20,661
	12,179	21,319	10,695	20,661

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

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

25 BORROWINGS

Secured by home loan portfolios	655,713	394,521	-	-
Unsecured	323,559	293,749	323,559	293,749
Term Funding Facility	190,325	200,463	190,325	200,463
Repurchase agreements	40,110	80,049	40,110	80,049
	1,209,707	968,782	553,994	574,261

As at 30 June 2023, the Bank has an outstanding amount of \$190,325,650 (2022: \$200,463,835) 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 \$40,700,000 (2022: \$81,055,000) of receivables due from financial institutions as collateral as part of entering repurchase agreements as at 30 June 2023.

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

26 PROVISIONS

Employee benefits (a)	8,030	7,349	8,030	7,349
Make good (b)	1,162	1,103	1,162	1,103
	9,192	8,452	9,192	8,452

(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 prorata 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 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000

Within the next 12 months	6,257	5,780	6,257	5,780
Between one and two years	558	159	558	159
Later than two years	1,215	1,410	1,215	1,410
	8,030	7,349	8,030	7,349

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 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
Opening balance	1,103	853	1,103	853
Make good released during the year	(111)	-	(111)	-
Make good provided for during the year	170	250	170	250
Closing balance	1,162	1,103	1,162	1,103

Year Ended 30 June 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
The Group expects the make good provisions to be paid out as follows:				
Within the next 12 months	187	249	187	249
Between one and two years	67	67	67	67
Later than two years	908	787	908	787
	1,162	1,103	1,162	1,103

Year Ended 30 June 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
The balance comprises temporary differences attributable to:				
Financial assets at FVOCI	1,631	1,650	1,631	1,632
Derivatives	5,078	4,706	5,078	4,706
Property and equipment	2,574	3,130	2,422	2,978
Intangible assets	3,133	1,059	3,133	1,059
Right-of-use-assets	7,769	7,965	7,769	7,965
Other	10	44	10	44
	20,195	18,554	20,043	18,384
Set off of deferred tax assets (note 22)	(18,196)	(18,554)	(18,259)	(18,384)
Net deferred tax liabilities	1,999	-	1,784	-

Movements:				
Opening balance prior to set off	18,554	13,517	18,384	13,499
Adjustment related to prior period	-	897	-	897
Adjusted opening balance	18,554	14,414	18,384	14,396
Charged to the income statement (note 7)	579	471	579	471
Charged to equity (note 7) & (note 22)	1,062	3,669	1,080	3,517
Closing balance prior to set off	20,195	18,554	20,043	18,384

Notes to the Financial Statements

Year Ended 30 June 2023

	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
28 MEMBERS' FUNDS				
Reserves				
General reserve (a)	220,000	220,000	220,000	220,000
Share capital reserve (b)	1,752	1,728	1,752	1,728
Cash flow hedge reserve (c)	8,546	6,027	8,546	6,027
Financial asset held at FVOCI reserve (d)	1,537	1,741	3,700	3,700
Land and Buildings Revaluation held in FVOCI reserve (e)	1,152	1,152	796	796
	232,987	230,648	234,794	232,251
Retained earnings				
Balance at beginning of year	104,242	87,731	102,303	85,831
Prior period adjustment	(484)	-	(400)	-
Profit for the year	19,488	16,546	19,394	16,511
Total available for appropriation	123,246	104,277	121,297	102,342
Dividends Paid	(4,344)	-	(4,344)	-
Amount transferred to/(from) OCI	-	(10)	-	(14)
Amount transferred to share capital reserve (b)	(24)	(25)	(24)	(25)
Balance at end of year	118,878	104,242	116,929	102,303
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
Issued Capital				
Balance at beginning of year	73,970	-	73,970	-
Issue of Capital Notes net of issuance cost	(30)	73,970	(30)	73,970
Balance at end of year	73,940	73,970	73,940	73,970

(a) General reserve

The general reserve represents an historical transfer from retained earnings.

Year Ended 30 June 2023

	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
(b) Share capital reserve				
Balance at beginning of year	1,728	1,703	1,728	1,703
Transfer from retained profits	24	25	24	25
Balance at end of year	1,752	1,728	1,752	1,728

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 2023

	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
(c) Cash flow hedge reserve				
Balance at beginning of year	6,027	(207)	6,027	(207)
Revaluation of cash flow hedge instruments	2,889	8,782	2,889	8,782
Cash flow hedges recycled to income statement	609	92	609	92
Ineffective gains recognised in the income statement	101	32	101	32
Tax effect of revaluations	(1,080)	(2,672)	(1,080)	(2,672)
Changes in the fair value of cash flow hedges, net of tax	2,519	6,234	2,519	6,234
Balance at end of year	8,546	6,027	8,546	6,027

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 2023

	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
(d) Financial assets held at FVOCI reserve				
Balance at beginning of year	1,741	567	3,700	2,525
Revaluation increase for the year	-	1,678	-	1,678
Revaluation decrease for the year	(292)	(10)	-	(14)
Amount transferred (to)/from Retained Earnings	-	10	-	14
Tax effect of revaluations	88	(504)	-	(503)
Changes in the fair value of financial asset, net of tax	(204)	1,174	-	1,175
Balance at end of year	1,537	1,741	3,700	3,700

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 2023

	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
(e) Land and Buildings Revaluation held in FVOCI reserve				
Balance at beginning of year	1,152	-	796	-
Revaluation of land and buildings	-	1,645	-	1,138
Tax effect of revaluations	-	(493)	-	(342)
Balance at end of year	1,152	1,152	796	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 2023

	Group			
	2023	2023	2022	2022
	No.	\$000	No.	\$000
(f) Issued Capital				
Balance at beginning of year	7,500	73,970	-	-
Issue of Capital Notes	-	-	7,500	75,000
Issue costs	-	(45)	-	(1,471)
Deferred Tax	-	15	-	441
Balance at end of year	7,500	73,940	7,500	73,970

Year Ended 30 June 2023

	Bank			
	2023	2023	2022	2022
	No.	\$000	No.	\$000
Issued Capital				
Balance at beginning of year	7,500	73,970	-	-
Issue of Capital Notes	-	-	7,500	75,000
Issue costs	-	(45)	-	(1,471)
Deferred Tax	-	15	-	441
Balance at end of year	7,500	73,940	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 were 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 was \$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 were \$75 million subordinated perpetual floating rate notes, issued 26 May 2022 with an optional call date on 26 May 2027.
- The Capital Notes were 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 is 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 non-viability 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 non-viability 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.

Notes to the Financial Statements

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$000	\$000	\$000	\$000
29 DIVIDENDS				
Quarterly cash dividend for period ended 26 August 2022 at distribution rate of \$120.6 per note	904	-	904	-
Quarterly cash dividend for period ended 28 November 2022 at distribution rate of \$147.1 per note	1,103	-	1,103	-
Quarterly cash dividend for period ended 27 February 2023 at distribution rate of \$154.6 per note	1,160	-	1,160	-
Quarterly cash dividend for period ended 26 May 2023 at distribution rate of \$156.9 per note	1,177	-	1,177	-
	4,344	-	4,344	-
Franking credits allocated based on a tax rate of 30% (2022 - 30%)	1,862	-	1,862	-
	1,862	-	1,862	-

Dividends during the period relate to fully franked quarterly discretionary distributions on the Capital Note and are recognised directly in retained earnings. Capital Note issuance was for \$75 million at \$10,000 per note.

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$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	19,477	16,557	19,394	16,511
Depreciation and amortisation	13,165	13,041	13,134	13,017
Credit impairment charge/(reversal)	819	(662)	819	(641)
Revaluation loss of land and buildings	-	(291)	-	(291)
(Gain)/Loss on disposal of property and equipment	134	746	134	742
Dividend received	(407)	(1,140)	(1,152)	(1,901)
Increase/(decrease) in provisions	740	683	740	830
Decrease/(increase) in investment	(4)	(7)	4	7
Increase in loans	(824,802)	(484,836)	(824,850)	(484,815)
(Decrease)/increase in net borrowings from other financial institutions	240,925	44,200	(20,267)	(131,724)
Decrease in interest earning investments	83,968	29,124	83,968	29,124
Decrease/(increase) in other receivables	6,310	18,012	5,303	(12,125)
Increase/(decrease) in member deposits	637,446	276,913	635,135	279,087
(Decrease)/increase in interest rate swaps	3	3	(392)	926
(Decrease)/increase in accrued expenses and other payables	(18,285)	(20,249)	(18,136)	10,929
(Increase)/decrease in current tax assets	1,915	(1,777)	1,807	(1,777)
(Increase)/decrease in deferred tax assets	4,363	(394)	4,410	(966)
Increase/(decrease) in deferred tax liabilities	1,641	1,943	1,659	1,942
(Increase)/decrease in sundry debtors and prepayments	(1,942)	(1,116)	(1,942)	(1,146)
(Increase)/decrease in Financial Assets held at FVTPL	(3)	(237)	-	-
Net cash inflow/(outflow) from operating activities	165,463	(109,487)	(100,232)	(282,271)

Notes to the Financial Statements

30 NOTES TO THE CASH FLOW STATEMENTS (continued)

(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 2023	Group		Bank	
	2023 \$000	2022 \$000	2023 \$000	2022 \$000
Net debt				
Cash and cash equivalents	309,257	167,898	221,739	90,466
Borrowings - repayable within one year (including overdraft)	(953,694)	(412,182)	(553,994)	(383,957)
Borrowings - repayable after one year	(256,013)	(556,600)	-	(190,304)
Net Debt	(900,450)	(800,884)	(332,255)	(483,795)
Cash and liquid investments	309,257	167,898	221,739	90,466
Gross debt - fixed interest rates	(553,994)	(574,261)	(553,994)	(574,261)
Gross debt - variable interest rates	(655,713)	(394,521)	-	-
Net Debt	(900,450)	(800,884)	(332,255)	(483,795)

Year Ended 30 June 2023	Other assets	Liabilities from financing activities		Total \$000
	Cash \$000	Borrowings due < 1 year \$000	Borrowings due > 1 year \$000	
Group				
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)
Net debt as at 1 July 2022	167,898	(412,182)	(556,600)	(800,884)
Cash flows	141,359	(541,512)	300,587	(99,566)
Net debt as at 30 June 2023	309,257	(953,694)	(256,013)	(900,450)
Bank				
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)
Net debt as at 1 July 2022	90,466	(383,957)	(190,304)	(483,795)
Cash flows	131,273	(170,037)	190,304	151,540
Net debt as at 30 June 2023	221,739	(553,994)	-	(332,255)

Notes to the Financial Statements

Year Ended 30 June 2023

Group		Bank	
2023	2022	2023	2022
\$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	1,038	2,890	1,038	2,890
- later than one year and not later than five years	-	352	-	352

Aggregate contractual obligation for future capital commitments - not recognised as a liability

1,038	3,242	1,038	3,242
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(b) Other expenditure commitments

- not later than one year	7,615	10,896	7,615	10,896
- later than one year and not later than five years	12,368	19,983	12,368	19,983

Aggregate contractual obligation for other future commitments - not recognised as a liability

19,983	30,879	19,983	30,879
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(c) Variable rental outgoings

- not later than one year	1,085	1,060	1,085	1,060
- later than one year and not later than five years	3,695	3,399	3,695	3,399
- later than five years	1,130	1,879	1,130	1,879

Aggregate contractual obligation for future variable outgoings - not recognised as a liability

5,910	6,338	5,910	6,338
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Year Ended 30 June 2023

Group		Bank	
2023	2022	2023	2022
\$000	\$000	\$000	\$000

32 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Credit related commitments: approved but undrawn loans and other available credit and guarantees

973,822	846,955	973,822	846,955
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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 2023).
- lodged a settlement security deposit of \$28,000,000 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 2023).
- lodged a settlement security deposit of \$50,000 under the Standard Terms and Conditions.

The Bank was 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 2023, the Bank had outstanding amounts of \$189,796,164 (2022: 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 \$1,361,222 (2022: \$1,860,000). Management and Directors are not aware of any claims, either current or pending, in relation to those guarantees.

Notes to the Financial Statements

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$	\$	\$	\$

33 KEY MANAGEMENT PERSONNEL DISCLOSURES

Total key management personnel remuneration	4,828,724	6,694,873	4,828,724	6,694,873
Short-term employee benefits	4,561,978	6,194,032	4,561,978	6,194,032
Post-employment benefits	215,610	378,935	215,610	378,935
Other long-term benefits	3,748	7,078	3,748	7,078
Termination benefits	47,388	114,828	47,388	114,828
	4,828,724	6,694,873	4,828,724	6,694,873

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 Group employee. Employee product rates are 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.

Year Ended 30 June 2023

	Bank	
	2023	2022
	\$	\$

Loans outstanding to key management personnel and their related entities:

Total loans	5,316,307	7,527,052
Of which, loans under normal member terms and conditions	2,902,719	6,859,356
Loan advances	520,870	3,872,873
Loan repayments	263,187	764,961
Interest on loans	84,112	189,906

Loans outstanding to key management personnel and their related entities:

Total discounted loans	2,413,588	667,696
Of which, unsecured loan balance	-	-
Loan advances	1,699,918	-
Loan repayments	346,007	58,857
Interest on loans	39,325	797

Outstanding deposits held by key management personnel and their related entities:

Balance of deposits	2,201,899	1,460,542
Additional deposits	7,355,188	4,353,316
Withdrawals	6,375,393	4,675,130
Interest on deposits	976	380

Notes to the Financial Statements

Year Ended 30 June 2023	Group		Bank	
	2023	2022	2023	2022
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	257,440	238,040	257,440	238,040
- other assurance services	79,574	138,496	47,978	103,872
	337,014	376,536	305,418	341,912
Other auditors				
- statutory financial reports audit services	-	3,246	-	-
	337,014	379,782	305,418	341,912
(b) Remuneration for other services:				
Auditor of the parent entity - Grant Thornton				
- taxation advice	22,245	75,680	22,245	75,680
- consulting	-	8,693	-	8,693
	22,245	84,373	22,245	84,373
Total auditor's remuneration	359,259	464,155	327,663	426,285

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.

Year Ended 30 June 2023	Bank	
	2023	2022
	\$000	\$000

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

Interest revenue	59,315	20,055
Interest expense	74,825	29,945
Securitisation service fee revenue	7,400	7,169
Dividend revenue	400	450
Other income	-	59
Aggregate amounts receivable from entities in the Group at balance sheet date	59,754	67,769
Aggregate amounts payable to entities in the Group at balance sheet date	677,019	396,891

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 2023, the KMPs held 22 shares of the PNL Capital Note. During the period, they received \$12,743 in distributions from these Capital Notes, detailed in note 29.

Notes to the Financial Statements

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.

(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 arise 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 (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 2023

	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
2023					
Cash and cash equivalents	309,257	2,930	-	(652)	-
Receivables due from other financial institutions	1,133,288	9,448	-	(9,434)	-
Loans and advances	6,670,693	47,961	-	(47,961)	-
Derivatives financial instruments	13,172	-	5,785	-	(5,907)
Members' deposits	(6,384,785)	(45,273)	-	45,238	-
Borrowings	(1,209,707)	(9,469)	-	9,464	-
Total increase/(decrease)	531,918	5,597	5,785	(3,345)	(5,907)
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)

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2023

	Carrying amount	Bank			Other movements in equity
		Income statement	+100bp	-100bp	
	\$000	\$000	\$000	\$000	\$000
2023					
Cash and cash equivalents	221,739	2,087	-	(441)	-
Receivables due from other financial institutions	1,133,288	9,448	-	(9,434)	-
Loans and advances	6,670,693	47,961	-	(47,961)	-
Derivatives financial instruments	12,644	(128)	5,785	130	(5,907)
Members' deposits	(6,386,648)	(45,273)	-	45,238	-
Borrowings	(553,994)	(3,888)	-	3,884	-
Due to controlled entities	(677,019)	(5,581)	-	5,581	-
Total increase/(decrease)	420,703	4,626	5,785	(3,003)	(5,907)
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)

Refer to note 16 for the fair value of interest rate swaps.

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 fulfill 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 (2022: \$3,000,000) overdraft facility with Cuscal. This facility was undrawn as at 30 June 2023.

Liquidity support is available in the form of a \$1,250,000 (2022: \$1,250,000) overdraft facility with Indue. This facility was undrawn as at 30 June 2023.

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 \$500,000,000 (2022: \$75,000,000), of which \$107,259,675 (2022: \$23,083,798) was available for drawdown as at 30 June 2023; and
- a self-securitisation facility under the Pinnacle Series Trust 2014-SST of \$1,445,000,000 (2022: \$1,483,000,000). The A Notes (AAA rated) of \$1,283,000,000 (2022: \$1,283,000,000) 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 2023:

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
	\$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 2023

	Group					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Maturities of financial liabilities						
2023						
Borrowings	-	388,401	567,937	-	255,713	1,212,051
Members' deposits	3,129,458	1,485,505	1,604,097	201,099	195	6,420,354
Derivative financial instruments	-	-	-	5,619	-	5,619
Other payables	-	12,179	-	-	-	12,179
Lease liabilities	-	1,122	4,946	19,793	10,191	36,052
	3,129,458	1,887,207	2,176,980	226,511	266,099	7,686,255
2022						
Borrowings	150	311,816	156,300	440,337	77,217	985,820
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

Year Ended 30 June 2023

	Bank					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Maturities of financial liabilities						
2023						
Borrowings	(300)	388,401	167,937	-	-	556,038
Members' deposits	3,129,458	1,485,505	1,604,097	201,099	195	6,420,354
Derivative financial instruments	-	-	-	5,619	-	5,619
Other payables	-	10,695	-	-	-	10,695
Lease liabilities	-	1,122	4,946	19,793	10,191	36,052
	3,129,158	1,885,723	1,776,980	226,511	10,386	7,028,758
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

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 individual 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 Key Risk Indicators (KRIs) from the prior year through the inclusion of additional Industry Sector limits to ensure growth in the Business Banking book has sufficient oversight/governance and credit risk controls.

Simplified ECL model

The Group applies a simplified ECL model to financial assets being the trade receivables, contract assets and lease receivable. Under the simplified 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.

3 stage model methodology

The three-stage model applies to Loans and 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 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. ECLs are estimated on a collective basis for exposures in Stage 1 or Stage 2 and on either a collective or individual basis when transferred to Stage 3.

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 have been 90 days past due and yet to satisfy three months of payments on the account 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%.

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

A material change to the macroeconomic overlay calculation has occurred this financial year. An update to the macroeconomic factors has seen GDP and GDP Index replaced with an Inflation measure. This change has occurred to provide a more prudent approach, reflective of the anticipated higher interest rate environment and associated credit stress.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

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

Macroeconomic Overlay (continued)

To build the model correlations, testing of historic Australian ADI loss data against macroeconomic factors was carried out to determine which macroeconomic factors are the most appropriate. The model includes three macroeconomic factors (inflation, NSW and WA unemployment) which are strongly related to delinquency and 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.

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 20-50% (standard mortgages only)

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 50-70% (standard mortgages only)

- 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 70-105% (standard mortgages only)

- CRG4 – Moderate Risk

Loan products that have the following characteristics:

- Qualify for a 75-100% 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.

- CRG5 – Acceptable Risk

Loan products that have the following characteristics:

- Qualify for a 75-100% 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.

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

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

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.

Year Ended 30 June 2023

	Group				Total
	Stage 1	Stage 2	Stage 3		
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Individual provision Lifetime ECL	
Internal rating	\$000	\$000	\$000	\$000	\$000
Low (Internal risk grade 1)					
Cash and cash equivalents	309,257	-	-	-	309,257
Receivables due from financial institutions	1,133,697	-	-	-	1,133,697
Loans and advances	5,556,167	9,925	29,114	-	5,595,206
Undrawn credit commitments	972,461	-	-	-	972,461
Total Low	7,971,582	9,925	29,114	-	8,010,621
Sound (Internal risk grade 2)					
Loans and advances	486,986	1,866	2,425	-	491,277
Total Sound	486,986	1,866	2,425	-	491,277
Stable (Internal risk grade 3)					
Loans and advances	181,230	571	1,629	-	183,430
Total Stable	181,230	571	1,629	-	183,430
Moderate (Internal risk grade 4)					
Loans and advances	35,337	6,917	60	-	42,314
Total Moderate	35,337	6,917	60	-	42,314
Acceptable (Internal risk grade 5)					
Loans and advances	356,861	340	80	9	357,290
Total Acceptable	356,861	340	80	9	357,290
Managed (Internal risk grade 6)					
Loans and advances	1,487	385	1,347	4,273	7,492
Total Managed	1,487	385	1,347	4,273	7,492
Total	9,033,483	20,004	34,655	4,282	9,092,424
Financial assets by ECL stage					
Cash and cash equivalents	309,257	-	-	-	309,257
Receivables due from financial institutions	1,133,697	-	-	-	1,133,697
Loans and advances	6,618,068	20,004	34,655	4,282	6,677,009
Undrawn credit commitments	972,461	-	-	-	972,461
Total financial assets by ECL stage	9,033,483	20,004	34,655	4,282	9,092,424

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2022

	Group				Total
	Stage 1	Stage 2	Stage 3		
	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Individual 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
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 2023

	Bank				Total
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Stage 3 Collective provision Lifetime ECL credit impaired	Individual provision Lifetime ECL	
Internal rating	\$000	\$000	\$000	\$000	\$000
Low (Internal risk grade 1)					
Cash and cash equivalents	221,739	-	-	-	221,739
Receivables due from financial institutions	1,133,697	-	-	-	1,133,697
Other financial assets held at AC	566	-	-	-	566
Loans and advances	5,556,167	9,925	29,114	-	5,595,206
Due from controlled entities	59,754	-	-	-	59,754
Undrawn credit commitments	972,461	-	-	-	972,461
Total Low	7,944,384	9,925	29,114	-	7,983,423
Sound (Internal risk grade 2)					
Loans and advances	486,986	1,866	2,425	-	491,277
Total Sound	486,986	1,866	2,425	-	491,277
Stable (Internal risk grade 3)					
Loans and advances	181,230	571	1,629	-	183,430
Total Stable	181,230	571	1,629	-	183,430
Moderate (Internal risk grade 4)					
Loans and advances	35,337	6,917	60	-	42,314
Total Moderate	35,337	6,917	60	-	42,314
Acceptable (Internal risk grade 5)					
Loans and advances	356,861	340	80	9	357,290
Total Acceptable	356,861	340	80	9	357,290
Managed (Internal risk grade 6)					
Loans and advances	1,487	385	1,347	4,273	7,492
Total Managed	1,487	385	1,347	4,273	7,492
Total	9,006,285	20,004	34,655	4,282	9,065,226
Financial assets by ECL stage					
Cash and cash equivalents	221,739	-	-	-	221,739
Receivables due from financial institutions	1,133,697	-	-	-	1,133,697
Other financial assets held at AC	566	-	-	-	566
Loans and advances	6,618,068	20,004	34,655	4,282	6,677,009
Due from controlled entities	59,754	-	-	-	59,754
Undrawn credit commitments	972,461	-	-	-	972,461
Total financial assets by ECL stage	9,006,285	20,004	34,655	4,282	9,065,226

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2022

	Bank				Total
	Stage 1	Stage 2	Stage 3		
Internal rating	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Individual provision Lifetime ECL	
	\$000	\$000	\$000	\$000	\$000
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
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)

(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 2023

		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	309,257	-	309,257	-	-	
Receivables due from financial institutions	9	1,133,697	(409)	1,133,288	-	-	
Other financial assets held at AC	12	566	-	566	-	-	
Loans and advances ⁽ⁱ⁾	14	6,677,008	(5,743)	6,671,265	46,351	13,462,582	
- Home loans		6,236,046	(3,694)	6,232,352	3,937	12,239,541	
- Secured overdrafts		39,115	(137)	38,978	90	336,342	
- Personal loans		35,522	(391)	35,131	41,150	-	
- Overdraft & credit cards		37,702	(913)	36,789	90	3,645	
- Commercial & property finance		328,623	(608)	328,015	1,084	883,054	
Total		8,120,528	(6,152)	8,114,376	46,351	13,462,582	
Off-Balance Sheet							
Undrawn credit commitments	32	973,822	(574)	973,248	-	-	
Maximum credit exposure		9,094,350	(6,726)	9,087,624	46,351	13,462,582	

(i) Gross loans and advances after effective rate adjustment

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

Notes to the Financial Statements

36 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2023

			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	221,739	-	221,739	-	-
Receivables due from financial institutions	9	1,133,697	(409)	1,133,288	-	-
Other financial assets held at AC	12	566	-	566	-	-
Loans and advances ⁽ⁱ⁾	14	6,677,008	(5,743)	6,671,265	46,351	13,462,582
- Home loans		6,236,046	(3,694)	6,232,352	3,937	12,239,541
- Secured overdrafts		39,115	(137)	38,978	90	336,342
- Personal loans		35,522	(391)	35,131	41,150	-
- Overdraft & credit cards		37,702	(913)	36,789	90	3,645
- Commercial & property finance		328,623	(608)	328,015	1,084	883,054
Due from controlled entities	17	59,754	-	59,754	-	-
Total		8,092,764	(6,152)	8,086,612	46,351	13,462,582
Off-Balance Sheet						
Undrawn credit commitments	32	973,822	(574)	973,248	-	-
Maximum credit exposure		9,066,586	(6,726)	9,059,860	46,351	13,462,582

(i) Gross loans and advances after effective rate adjustment

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

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 continue their traditional business as usual practices and may result in limiting their ability to provide deposits or repay their loans. Climate Change or Climate Action may also negatively affect the value of security held by the Group's loans.

The possible impacts of climate change for the Group are addressed as part of the Risk Management Framework and is considered when the corporate risk profile and the Climate Change Risk Policy for the Group are reviewed.

Credit policies continue to be reviewed and updated to recognise the ongoing changes in risks associated with climate change. 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.

From 1 January 2023, APRA implemented its revisions to the Capital Framework. The objectives of these revisions were to increase risk sensitivity, enhance ability of ADIs to respond to future stress events and to improve the comparability of the Australian framework with international standards. The Group implemented the New Capital Framework effective 1 January 2023.

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.

In a previous financial year, the Group implemented a Capital Note Program and has a hybrid tier one capital note of \$75,000,000 in issuance, refer to note 28.

Year Ended 30 June 2023

	Group		Bank	
	2023	2022	2023	2022
Capital adequacy ratio as at 30 June	14.89%	15.98%	14.84%	15.92%

37 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 24 to 84 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 2023 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 Group and 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.



Stephen Targett
Director



Gary Humphreys
Director

Date: 29 August 2023
PERTH WA

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 statements of financial position as at 30 June 2023, the statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements 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 2023 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 2023, 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/ar3.pdf. This description forms part of our auditor's report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Darren Scammell
Partner – Audit & Assurance

Melbourne, 29 August 2023



Police & Nurses Limited
ABN 69 087 651 876
AFSL/Australian Credit Licence 240701