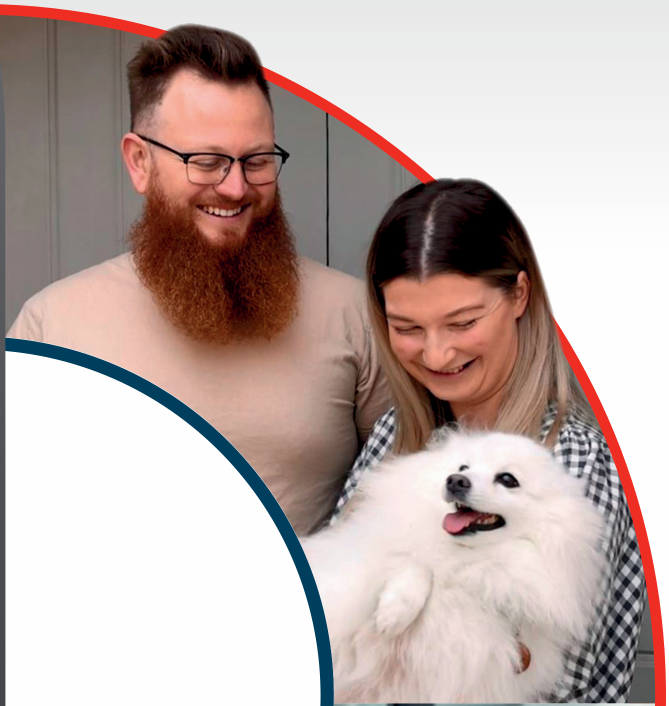
Police & Nurses Limited

ANNUAL REPORT 2021



STRONGER TOGETHER

Directory

Directors

Stephen Craig Targett (Chair)

Paul Marshall Gabb
(retired 18 November 2020)

Kellie Louise Properjohn

Edwin Roy Bradley

Julie Ann Elliott

Andrew Douglas Hadley

Trevor Joel Hunt

Alan Craig Philp

Louise Anne Clarke

Gary Colin Humphreys

Chief Executive Officer

Andrew Douglas Hadley

Company Secretary

David Verran Fehlberg

Michele Therese Ryan

Registered Office

Police & Nurses Limited
ABN 69 087 651 876

Level 6
556 Wellington Street
Perth 6000
Western Australia
Telephone 13 25 77
www.pnbank.com.au

External Auditors

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

Internal Auditors

PricewaterhouseCoopers
Brookfield Place
125 St Georges Terrace
Perth 6000
Western Australia

Contents

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

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

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

The financial report was authorised for issue by the Directors on 30 August 2021. The Directors have the power to amend and reissue the financial report.

Police & Nurses Limited publishes its Basel III disclosures (including capital and remuneration) on its website at quarterly intervals. The disclosure covering the period ending 30 June 2021 can be found here: **https://www.pnbank.com.au/about/corporate-information/corporate-details/**

Glossary of abbreviations and defined terms

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

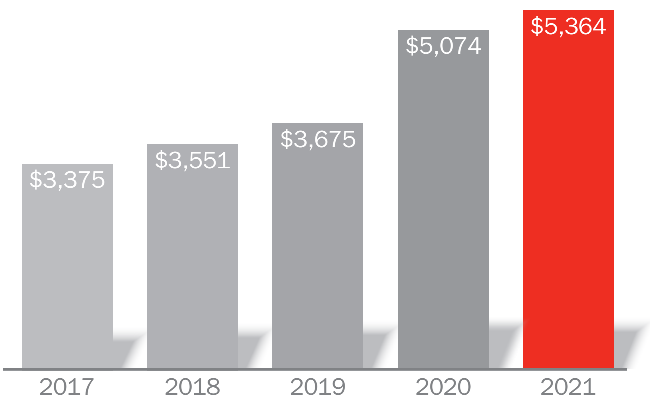
Group highlights at a glance

Loans under management

grew by

6%

2020	2021
$5,074m	**$5,364m**

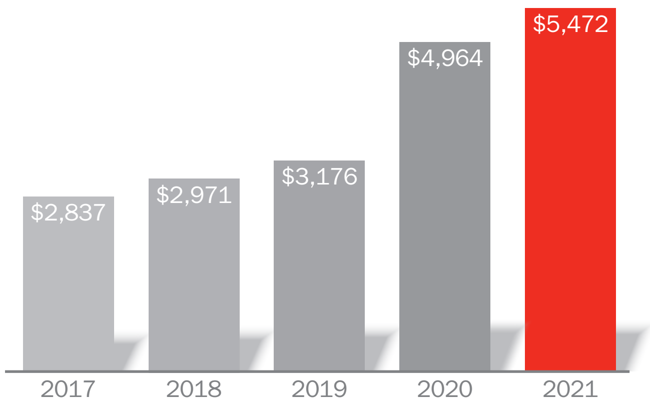


Total deposit balance

grew by

10%

2020	2021
$4,964m	**$5,472m**

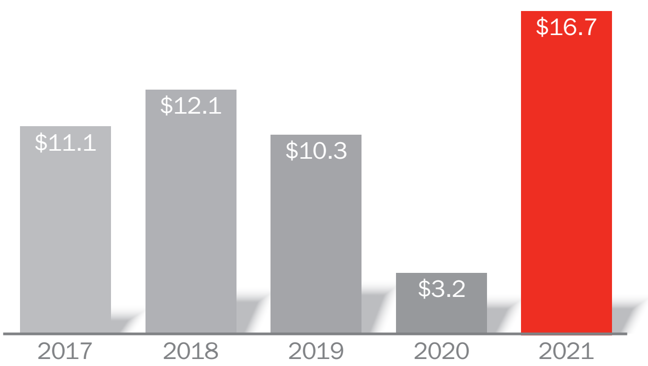


Net profit after tax (NPAT)

increased to

$16.7m

2020	2021
$3.2m	**$16.7m**

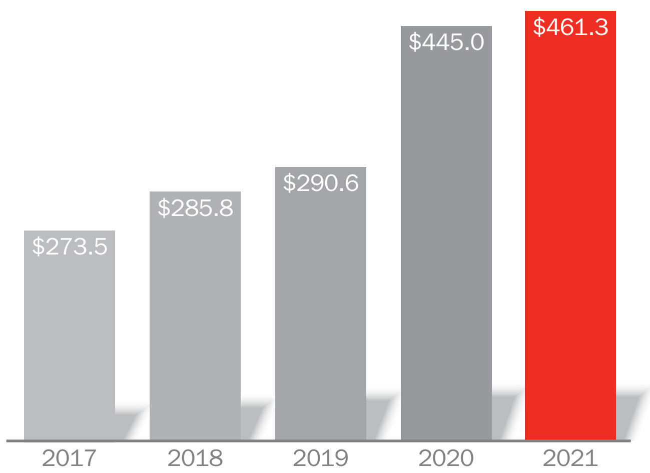


Total members' funds

increased to

$461.3m

2020	2021
$445.0m	**$461.3m**



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

Board Members

Stephen Craig Targett
Chair

Julie Ann Elliott
Director

Edwin Roy Bradley
Director

Louise Anne Clarke
Director

Gary Colin Humphreys
Director

Trevor Joel Hunt
Director

Alan Craig Philp
Director

Kellie Louise Properjohn
Director

Andrew Douglas Hadley
Director

Executive Team

Andrew Hadley
Chief Executive Officer

Patrick Jodas
Chief Financial Officer

Anna Pearce
General Manager
P&N Bank

Michael Ribbens
General Manager bcu

Brendon Comrie
Chief Risk Officer

Christine MacKenzie
Chief People Officer

Phil Thistlethwaite
Chief Transformation
Officer

Warren Willis
Chief Information Officer

Chair and CEO Report

Leveraging our two customer-owned banking brands, P&N Bank (WA) and bcu (NSW and Qld), Police & Nurses Limited (PNL) finished the year with a Group profit after tax of $16.7m, off the back of above system growth in both deposits and lending.

At the same time, we developed and launched our ambitious transformation program that will deliver an even more contemporary and customer-centric banking experience for members, premised on delivering simple products, simple processes and simple policies.

Notwithstanding the disruptions of the COVID-19 pandemic and the impacts of a record low interest rate environment, our pleasing result is due to strong operating performance against a clearly articulated strategic plan and vision to be one of the leading customer-owned banking groups in Australia.

Merger and systems integration success

In October last year, the benefits of our 2019 merger between P&N Bank and bcu came to fruition when we successfully completed one of the more complex banking systems integrations in Australia.

From the outset, and despite duplication in membership and account numbers across the two brands, we were determined to minimise customer impact and disruption from the systems integration. With meticulous planning, rigorous testing, clear communications and with great support from our key technology and payments partners, we achieved an outcome whereby members of both brands retained their membership numbers, their electronic access cards and did not need to change their BSB and account numbers.

With that work complete and learnings captured, we now have a playbook with which to implement similar systems integrations in the future in a relatively straightforward and seamless manner.

Another key promise was fulfilled when we introduced improved mobile and digital banking services for our east coast members, including access to convenient digital banking and digital wallets which are proving increasingly popular. With progress already made, we recognise that further work is required to enhance our business banking offerings and functionality.

More partnerships

We recognise that banking is a scale game, with ever increasing investments required in specialist skills, sophisticated technology, cyber security, as well as digital and data solutions.

While the future for the Australian customer-owned banking sector remains positive, further industry consolidation is inevitable. In the face of increased regulation and technology investments, industry participants will need to leverage economies of scale to ensure they remain competitive. This year we have witnessed a number of large and small customer-owned banking organisations signal their merger intentions.

With the merger of P&N Bank and bcu, we have built a unique multi-brand model and are actively looking for opportunities to bring more like-minded customer-owned banking partners into the Group. Our multi-brand solution respects the heritage, identity and community presence of our banking brands, provides localised decision making and optimises the shared services and systems of the Group in the back-office functions such as risk, finance and information technology.

Transforming to make our members' lives easier

As outlined above, our Board have endorsed a clearly articulated transformation roadmap that will see us build and deliver a more customer-centric banking experience.

Over the next couple of years, we will look to replace outdated legacy banking systems, processes and products that no longer deliver a modern integrated experience. We will develop and leverage more personalised solutions that provide greater digital enablement and self-service capability for our members, our brokers and our business partners.

As we transform, and with more intelligent systems, we plan to create deeper connections with our members regardless of their tenure, life stage or banking channel of choice.

Chair and CEO Report

Notwithstanding our focus on digital solutions and automation, we will continue to support those important face to face conversations and personal relationships that so many of our members still enjoy.

And finally, as we build a more customer-centric bank, we have also begun to consider the shape and role that our overarching Group brand needs to take in the future.

Our people

To deliver the transformation and achieve our vision we need the right talent, capability and culture.

Quite simply, our people are the key to our success.

Over the past year, we have created a future-state operating model and organisational structure that can flex to accommodate future partners. We have continued to develop our existing talent pool to deliver the increasingly complex technological programs of work needed for both our transformation and to simply operate a competitive and compliant bank.

This year we bolstered our Executive team with three new C-Suite executive appointments in Phil Thistlethwaite (Chief Transformation Officer), Christine MacKenzie (Chief People Officer) and Warren Willis (Chief Information Officer), each bringing deep leadership and change experience. We have also established a broader and more robust leadership structure and developed greater capability across all levels of senior leadership and in our project delivery teams.

Pleasingly, we have launched our latest Diversity & Inclusion Strategy across the Group which has been very well received internally. To attract the right talent and people with the right values, we need to offer a progressive workplace where our staff can be their authentic selves and thrive in an environment that empowers them to be their best every day. This is a key element of our overall employee value proposition.

Over the next 12 months, we will continue to invest in our Leadership Development Programs, while our Cultural Roadmap will deliver a collaborative program of work that involves people from all areas of our business optimising what makes PNL such a special place to work, with high rates of staff engagement and customer advocacy.

Financial performance highlights

Following our maiden consolidated results as a merged entity last year, 2021 saw the Group's profit after tax bounce back to $16.7 million, noting the comparative results for the Statement of Profit and Loss for 2020 only represented eight months of consolidated performance post the November 2019 merger with bcu.

During the year, we sold the operating assets of P&N Financial Planning (PNFP). In an environment of escalating regulatory obligations, operating a successful financial planning business has become a complex and specialised proposition. Following a strategic review, the operating assets of PNFP were sold to a dedicated and local WA-based organisation, Wealth Management Partners (WMP), delivering a positive outcome for PNFP

clients, planners and staff. We will continue to refer new clients to WMP and we wish our former PNFP clients, advisers and staff all the very best in the future. The disposal of PNFP for $2.8 million resulted in a profit on sale of $1.9 million, against which $1.5 million of goodwill was impaired.

Our response to the COVID-19 pandemic included a number of initiatives such as payment deferrals and suspension of certain fees.

Pleasingly, over 90% of members who were on loan payment deferrals resumed full repayments with a small number being assisted through hardship arrangements.

With this in mind, the Group released around half of the COVID-19 impairment provisions that were raised last year. Given the ongoing uncertainty being caused by the Delta strain of the COVID-19 virus, the Board considered it prudent to retain a significant $5 million provision. We were also pleased to be able to assist members during these difficult times with a one-off reduction in fees of over $2 million.

The Group raised a further $3 million specific impairment against the exposure to the Two Rocks development, and management continue to focus on the options available to maximise member value in exiting this non-core asset.

With the successful merger now complete, our operating costs included over $3 million of system integration costs that were treated as once off.

PNL Group financial performance highlights:

- Net profit after tax of $16.7 million.
- Net interest income increased to $130 million.
- Total loans under management increased 6% to $5.36 billion.
- Total deposit balances increased by 10% to $5.47 billion.
- Non-interest revenue and other income increased 20% to $17.5 million.
- Reversal of credit impairments of $4.1 million.
- Total assets increased 12% to $6.93 billion.
- Total members' funds increased to $461 million.
- Capital position remains healthy ending the year at 14.10%.
- Total membership numbers stand at 164,138.

The road ahead

With global uncertainty continuing to feature in our daily newsfeeds, COVID-19 will no doubt occupy our headlines and cause ongoing uncertainty across Australia for many more months to come.

It goes without saying that the pandemic has severely impacted individuals and families, communities and of course small and medium businesses in many different ways. As the second year of COVID-19 impacts have unfolded, the ongoing challenges of lockdowns, family and work separations and business shutdowns have more than taken their toll.

Western Australia and Queensland have, in the main, escaped the heavy burden of outbreaks in New South Wales and Victoria and our thoughts continue to be with our members and employees in those states who remain locked down and subject to restrictions.

In looking to the future, there is no doubt that we will have to accept living with the virus once our national vaccination rates reach the appropriate thresholds, which will in turn place a different set of pressures on families and businesses.

As we look forward to and hope for a more certain future and a more predictable operating environment, our organisation will continue to stand by our members and staff across our nation to provide whatever support we can during these challenging times.

Our Board and Executive recognise that climate change and associated risks have the potential to be material to our organisation, our members and the communities in which our brands operate. In order to effectively manage climate change risks, in the past year, we introduced a Climate Change Risk Policy which articulates our approach to managing these risks, within the context and environment that our Group and brands operate.

This policy enables the development of further strategies to assist manage the direct and indirect impact of climate change that may arise through the course of our businesses.

Furthermore, our Group will continue to develop and enhance our Environmental, Social and Governance (ESG) Strategy.

Chair and CEO Report

Our thanks

We wish to thank our Board of Directors for their counsel and commitment during a logistically challenging year where the ongoing COVID-19 disruptions have meant virtual Board and committee meetings have been the norm. While some of the positive aspects of online meetings will remain, we look forward to some all-important in person meetings in the second half of the financial year.

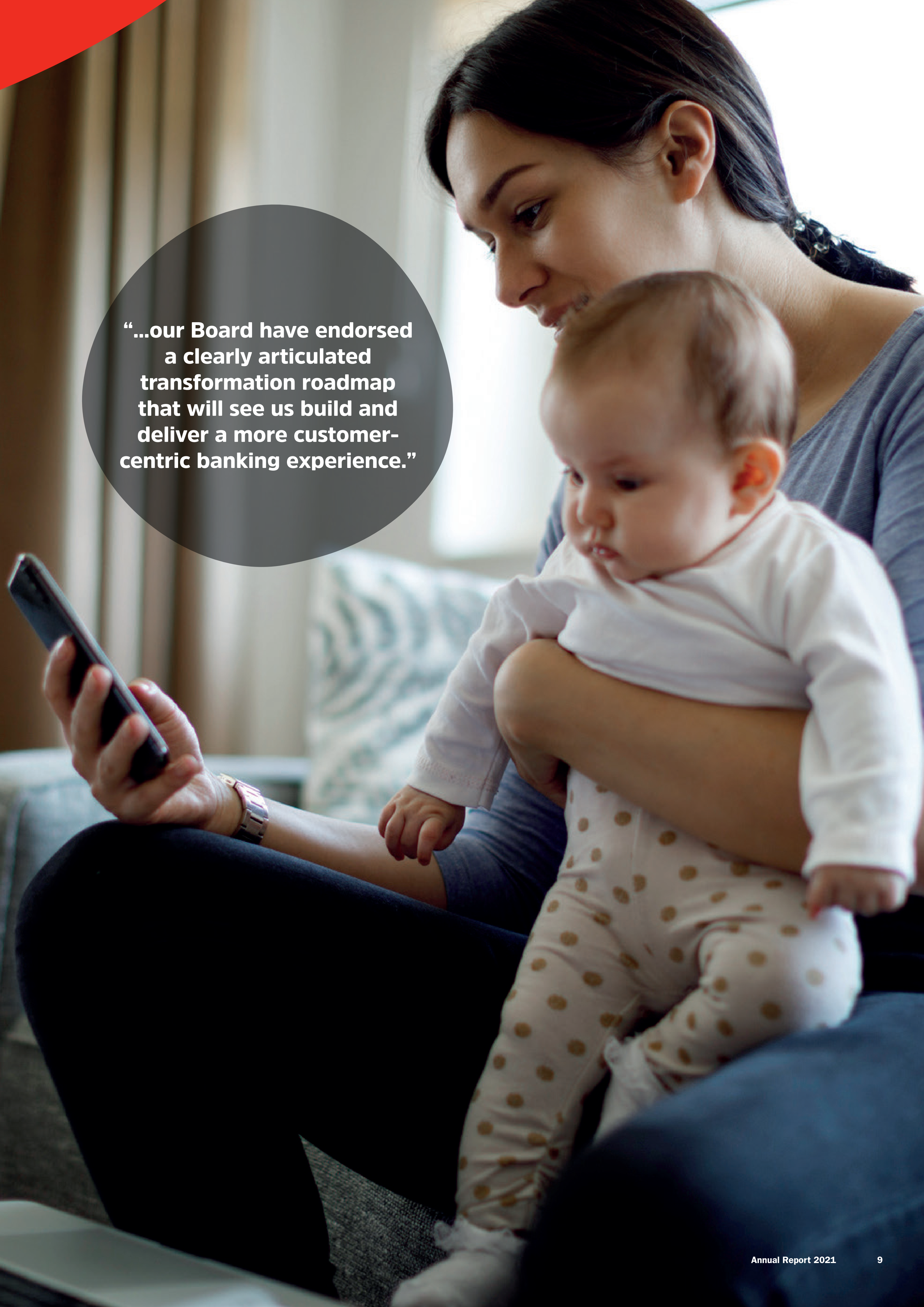
Our sincere thanks to our executives, our management and our staff who work so tirelessly on behalf of our members. We would especially like to acknowledge the personal disruption caused over the past year, in which our frontline services remained open notwithstanding personal caring responsibilities on the home front and the isolation and challenges of working from home encountered by other team members.

And finally, to our loyal members across Australia and abroad. Thank you for supporting the customer-owned banking sector, and our P&N and bcu brands in particular.

As we close out this year, our momentum is strong and our plans for the future are exciting. Regardless of where and how you bank with us, we will continue to keep your interests at the very heart of everything we do.

Stephen Targett
Chair

Andrew Hadley
Chief Executive Officer



“…our Board have endorsed a clearly articulated transformation roadmap that will see us build and deliver a more customer-centric banking experience.”

General Manager bcu Report

What a year it has been for bcu. I feel honoured to have had the of privilege of leading bcu during such a pivotal time for our brand.

Together, our bcu team have helped thousands of members achieve their financial goals, we have supported several charities and community organisations, and further developed our staff with training programs focussed on improving our member experience. The achievements and exceptional member service provided by our teams this year is something I am immensely proud of.

The bcu brand has remained strong, with our membership growing to over 59,300.

Banking highlights

This year we delivered on the commitment made to bcu members in 2019 to leverage the merger benefits, successfully completing a significant upgrade to our banking system.

This upgrade and integration was key to building a stronger and more sustainable future for bcu and has allowed our members to access a broader range of products, services and banking channels.

We also placed a strong focus on improving our digital banking services and delivered several new initiatives that have helped our members conduct their banking on the go. We launched a new bcu iBank and bcu Connect App, both of which feature additional functionality to make our members' lives easier. And potentially the most exciting digital roll out was the launch of our partnership with Apple Pay, Google Pay™ and Samsung Pay, that introduced digital wallet functionality for bcu debit and credit cards holders. bcu digital wallets now afford our members greater financial flexibility, with the ability to make easy and secure payments from their smartphone or device.

I am pleased to say our members have embraced this improved digital offering and we have seen a 23% increase in the number of payments undertaken using the bcu Connect App during the past year.

We also improved our online member experience, with new online membership forms. Applicants are now able to open a bcu membership and access an instant digital card within a matter of minutes. This functionality places bcu up there with the world's best account opening solutions. Following the launch of online memberships, 12% of new bcu members have elected to open their account online.

For those who visit our premises, our Brisbane Corporate Office and South Brisbane Branch were relocated to a new shared premises in the heart of the Brisbane CBD, designed to deliver modern and enriching member and staff experiences.

We relocated our Port Macquarie Branch to the vibrant Port Macquarie CBD, with contemporary new premises and a range of improved facilities. The branch has a dedicated member internet kiosk and our staff are enjoying helping more members familiarise themselves with the convenience of our digital platforms.

Pleasingly, we have seen a significant lift in new members who are choosing bcu in our Port Macquarie region since the new branch was opened.

We are also in the process of relocating our Tweed Heads Branch to a new central location in the Tweed City Shopping Centre and have begun planning an exciting and modern refurbishment of both our Yamba and Grafton branches.

Our bcu business banking teams continued to provide great service to our NSW and South East Queensland business clients this year. Our unique combination of competitive products, fast decisions and a personalised service is something that few other organisations in the market can provide.

We value the ongoing support of our business members and continue to work closely with them to gain a better understanding of what is working well and how we can further develop and streamline our business banking systems and offerings to make their lives easier.

In recognition of our commitment to offering exceptional products, during the year bcu received multiple awards for our Scoots Super Saver and business iSaver accounts, while our most popular OMG Home Loan was named winner in Infochoice's Home Loan Awards.



Community is at our core

Supporting the communities in which we operate remains at the very of core of bcu. We were delighted to make our community grants program an ongoing quarterly initiative in 2021. In a tribute to the founding treasurer of bcu, the program was renamed the Neville Spear Community Grants.

In addition to the initial $50,000 used to support twenty local community groups and small not-for-profit organisations, we will now provide a further $10,000 in support of eight groups each quarter, as selected by bcu members.

bcu were incredibly proud to once again sponsor a number of community groups including the Macksville Cricket Club, Sawtell Lifesaving Club and Woolgoolga Marine Rescue. We also partnered with local charities, such as the Can-Do-Cancer Trust which supports local patients and families affected by cancer.

The ongoing impact of COVID-19 has again been felt across all our communities this year. We supported members through these challenging times with lending relief packages and redeployed staff to areas of the business that had increased demand, such as our Contact Centre.

We worked hard to minimise any branch closures during the peak of COVID-19 whilst keeping members and staff safe, and were able to provide an overall continuity of service to our members at times when they needed us most.

Our teams worked closely with members who took up a lending relief package to provide ongoing support in the months that followed. It is pleasing to note that the majority of members who required financial assistance have now been able to return to their normal loan repayments.

We also offered both short and long-term financial support options to members who were impacted by the March 2021 floods that devastated many local communities.

Our people are our biggest asset

Our achievements and the progress our business has made over this past year would not have been possible without the hard work of our resilient and passionate staff.

Staff development and training was a priority for bcu this year. Our Branch Managers all successfully completed an accreditation, with a focus on upskilling leaders to be able to further develop their branch teams to provide enhanced personalised service to our members.

Interstate travel proved difficult over the last 12 months, with border restrictions often in place. Not to be deterred, our teams across both coasts have risen to this challenge and provided fantastic virtual support to each other, both during the integration of our banking systems and as ongoing support in the months that followed.

Next year

I am thrilled to say bcu has been successful in its application to be included on the panel of banks to offer the First Home Loan Deposit Scheme and New Home Guarantee. This will allow us to help more first home buyers enter the property market through these Australian Government initiatives.

Over the next year, we will continue to focus our efforts on new products and service developments. A range of innovative products are already in development that utilise the enhanced capabilities of our new banking system that will be rolled out over the coming months.

I am incredibly proud of the achievements and progress of bcu over the past year and I am confident of a strong future for bcu. I encourage you to keep sharing your opinions with me, as I truly do value your feedback. I am excited for the year ahead for bcu and look forward to delivering an even better member experience to you in the future.

Mike Ribbens
General Manager bcu

General Manager P&N Bank Report

As we reflect on the year, I'm proud that P&N Bank continues to thrive, maintaining its strong position as a leading Western Australian banking brand. During the year, we attracted more West Australians to the benefits of customer-owned banking and importantly continued to provide safe and secure banking channels despite the ongoing COVID-19 disruptions.

Our brand presence and profile continued to grow, with one in three West Australians considering P&N Bank alongside record numbers of current members willing to recommend P&N to their families and friends.

Banking highlights

As WA's local customer-owned bank, our investment and focus on improving member experience continued in 2020-21.

Following the introduction of the Federal Government's First Home Loan Deposit Scheme and New Home Guarantee in early 2020, P&N was proud to help another 299 first home buyers purchase their first home sooner through the Scheme.

We continued to invest in our digital service offerings to improve our online member experience, including new features in our award-winning mobile app, an improved online personal lending application process and improved messaging functionality to allow for ongoing conversations between members and our consultants across multiple devices.

The exciting and modern refurbishments of our Belmont, Bunbury, Mandurah, Rockingham and Success branches took P&N into more convenient locations within shopping centres following member feedback. Our new look branches have allowed us to better showcase our banking technology and our staff are enjoying helping more members familiarise themselves with the convenience of our digital banking services. Resources in our Perth-based Contact Centre multimedia team also increased in response to member demand for customer service via email, chat and social media channels.

Our broker partnerships are an important part of our strategic plan, with these relationships vital in helping us deliver the benefits of P&N Bank loans to those West Australians who prefer to use a broker. Our five-year strategy will see us invest heavily in our broker offering to improve turnaround times and the overall experience for brokers and their customers. We have used direct feedback from our broker partners to shape future improvements and investment and we anticipate an even greater focus on delivering a superior broker experience in the year ahead.

Pleasingly, our commitment to offering exceptional member experiences and products was rewarded during the year, with P&N taking out several awards including:

- 2020 Australian Banking Innovation Awards – Best Innovation in Customer Experience
- Finder Awards Low Deposit Home Loan 2020 – & Home Loan Intro Rate
- Mozo Experts Choice Awards – three categories for P&N's Pensioner Account, Split Home Loan and Investor Fixed Rate Home Loan
- DBM Consultants Australian Financial Awards for Most Innovative Bank

Taking care of our community

With COVID-19's ongoing impact felt across WA during the year, we continued to support members through lending relief packages, extended Contact Centre hours and increased resourcing. We were proud to be able to keep our branches open whilst keeping members and staff safe, remaining accessible to our members when they need us the most. We also offered affected members both short and long-term financial support options following the devasting Wooroloo bushfires in February.



P&N's strong commitment to the broader WA community has been evident for over 25 years, with continued involvement in community activities that benefit countless Western Australians.

Our Helping &nds community giving program provides our members the power to help individuals, families and groups in need in the community. During the year our members supported 35 local community groups and not-for-profits, which included a special funding round to support organisations responding directly to the devastating Wooroloo bushfires.

Through member nominations, we also quietly assisted individuals and families in need with a Helping &nd whether the intended recipient was a P&N member or not. The funds covered the costs of medical expenses, the purchase of essential items for a family after a house fire, and we assisted many women and families escape domestic violence situations.

This year saw P&N form a new partnership with Perth-based food relief charity, Manna. Through P&N's inaugural Happy Bellies fundraising appeal, members, staff, P&N and the general public raised $23,000 which resulted in an additional 23,000 breakfasts being provided to students at schools in areas of need throughout Perth.

P&N continued its support of key community partners, including Lifeline WA, assisting to fund the training of Telephone Crisis Support volunteers which became even more important as we grappled with the impacts of COVID-19. We also supported Variety WA's grants program and offered a helping hand to The Fathering Project's Armadale community program.

As proud sponsors of the Perth Wildcats we were pleased to see the team celebrate another successful season, winning the mid-season NBL Cup tournament, finishing the regular season in second position and making another grand final series.

Our people

This year has again been particularly challenging for many as we continued to experience the ongoing impacts of COVID-19. Throughout it all, our people have remained a key pillar of support within the business and for our members. We wouldn't have the strong advocacy for our brand without the incredible people who work tirelessly to provide exceptional and genuine customer experiences to our members.

And speaking of our people, it's important we offer a workplace that represents the communities in which we live. Having launched our Group's Diversity and Inclusion Strategy, I look forward to seeing how this comes to life for our brand, our members and their communities over the coming year.

Looking forward

As I write my final report as General Manager P&N Bank, I have had the opportunity to reflect on P&N's journey and see how far we've come. And what a positive journey it has been.

Throughout all the change, I am proud that we have remained focused on our history and our purpose of enriching the lives of our members and their communities. As always, I encourage our members to continue to provide feedback so we can grow and adapt to meet the needs of those we are here to serve.

I am confident of a strong future for P&N, with the Group's five-year strategic plan outlining a clear vision that will provide our members with greater financial empowerment and a superior member experience.

Anna Pearce
General Manager P&N Bank

Report of the Directors

Your Directors present their report on the financial statements of the Bank and the Group for the year ended 30 June 2021.

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 of 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/shareholders and responsibility to other stakeholders in the Group.

Directors

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

Stephen Craig TARGETT
(Chair) FAICD, MAIEx (Diploma)

Director with extensive experience running bank divisions, both globally and locally. Appointed as Chair on 7 December 2020 and was a member of the Board Governance & Remuneration Committee from 4 November 2019 to 18 November 2020 and Nominations Committee Chair from 23 March 2020 to 7 December 2020. Since his appointment as Chair, Mr. Targett has been an ex-officio member of the Audit Committee, Risk Committee and the Board Governance & Remuneration Committee.

Kellie Louise PROPERJOHN
APM GAICD

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

Edwin Roy BRADLEY
MBA BBus GAICD FCPA SF Fin

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

Julie Ann ELLIOTT
FAICD FCA FFin MBA (Exec) BEc

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

Andrew Douglas HADLEY
BCom GAICD SFFin

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

Trevor Joel HUNT
BBus GAICD

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 member and Audit Committee Chair.

Alan Craig PHILP
Dip Nursing & midwifery BA HSc Masters of Public Health GAICD

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

Louise Anne CLARKE
BBus

Executive and leadership coach with over 30 years' experience in the financial services sector as a Senior Executive. Risk Committee member.

Gary Colin HUMPHREYS
GAICD AMP173

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

Paul Marshall GABB
(Chair) B.Com (Accounting) CPA FAICD Grad Cert (Forensic Accounting) (retired 18 November 2020)

Executive - Australian Federal Police, 22 years' service as a Director of the Bank; 34 years' service in Law Enforcement. Ex-officio member of all Board committees. Paul Gabb retired and ceased to be a Director on 18 November 2020.

Each Director holds one member share in the Bank.

Company Secretary

Michele Therese RYAN
BA (English), Dip Law, Grad Dip (Legal Practice), GIA Cert

General Counsel (acting) and Company Secretary of the Bank from 15 March 2021. Ms Ryan has over 14 years' corporate law experience and has worked in private practice law firms in Australia, Hong Kong and Mongolia and in house in Australia, Singapore and Malaysia. Admitted as a solicitor in New South Wales in 2007 and has held a Western Australian legal practising certificate since 2017.

During the year ended 30 June 2021: Ms Jennifer Anne Handz ceased to act as General Counsel and Company Secretary on 15 March 2021 and Ms Jacqueline Anne Donald ceased to act as General Counsel and Company Secretary on 30 September 2020.

Composition and Meetings of the Board

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

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

Report of the Directors

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2021 and the number of meetings attended by each Director.

Director	Directors' Meetings		Audit Committee Meetings		Risk Committee Meetings		Board Governance and Remuneration Committee Meetings	
Member elected directors	A	B	A	B	A	B	A	B
K L Properjohn	10	10	5	5	*	*	7	7
T J Hunt	10	10	5	5	7	7	*	*
A C Philp	10	10	*	*	7	7	*	*
L A Clarke	10	10	*	*	7	7	5	5
G C Humphreys	10	10	5	5	4	4	*	*
P M Gabb+	4	3	*	*	*	*	*	*
Board appointed directors								
S C Targett	10	10	**	**	**	**	2**	2**
E R Bradley	10	10	*	*	7	7	7	7
J A Elliott	10	9	5	5	*	*	7	7
A D Hadley***	10	10	*	*	*	*	*	*

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.

\+ Mr Gabb ceased to be a Director on 18 November 2020.

* Not a member of the relevant Committee.

** After becoming Chair, Mr Targett was an ex-officio member of the Audit Committee, Risk Committee and Board Governance and Remuneration Committee. The Nominations Committee met on 4 August 2020 and was chaired by Mr Targett along with two independent members.

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

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 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 four 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 five 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 four Board members.

This Committee has written terms of reference, which outline its roles and responsibilities to enable it to assist the Board in relation to maintaining compliance with the requirements of the prudential standards, by providing informed feedback to the Board on its performance, to establish a framework to assist the Board with the assessment of the performance of each Director and the Chief Executive Officer and in relation to remuneration related practices and policies. An appraisal of the Board's performance 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 ensuring that both the Board and individual Board members meet 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 outline its roles and responsibilities. The Committee comprises a Chair and two independent members. None of the Nominations Committee members are employees of the Bank.

Group Risk Management

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

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

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

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

Ethical Standards

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

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

Review of Operations

The record low-interest rate environment has been a constant backdrop to this year's performance with positive signs of recovery from the COVID-19 pandemic emerging in the second half. The Board are mindful of the ongoing challenges and risks that the pandemic poses to the broader economy and to the PNL Group. For the financial period the Group delivered a net profit after tax of $16.7m:

- The assets and liabilities of Police & Nurses Financial Planning Pty Ltd (PNFP), a 65% owned subsidiary, were disposed of for total purchase consideration of $2.8m;
- A further $3m specific impairment was raised against the exposure to the Two Rocks development to align with latest independent valuations, with the Group continuing to investigate options to exit this non-core asset;

- The Group released approximately half of the COVID-19 impairment provisions raised last year and continues to hold just over $5m for the year ahead given the ongoing uncertainty around the pandemic; and
- The results include $3m of planned systems integration costs relating to the merger of bcu which is now completed.

Pursuant to the rules of the Bank, no dividend has or shall be paid in respect of any share.

Outlook

We expect the low-interest rate environment to continue for the foreseeable future, particularly in light of the recent COVID-19 developments emanating out of New South Wales and impacting more broadly. We are confident that we retain adequate provisions for credit losses in the coming year and we will continue to support our members throughout this difficult time.

Significant Changes

No significant changes in operations during the period.

Principal Activities

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

Events Subsequent to the End of the Financial Year

There were no material subsequent events identified.

Environmental Regulation

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

Insurance of Officers

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

Auditors' Independence Declaration

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

Rounding of Amounts

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

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

S C TARGETT
Director

T J HUNT
Director

Date: 30 August 2021
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 2021, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

Darren Scammell
Partner – Audit & Assurance

Melbourne, 30 August 2021

Statements of Profit and Loss

Year Ended 30 June 2021	Notes	Consolidated		Police & Nurses Limited	
		2021	2020	**2021**	2020
		$000	$000	**$000**	$000
Interest revenue	3	**171,583**	177,639	**192,734**	196,628
Interest expense	3	**41,299**	73,788	**70,301**	98,421
Net interest income		**130,284**	103,851	**122,433**	98,207
Non-interest revenue					
Loan fee revenue		**3,454**	3,066	**3,454**	3,066
Financial services fees		**1,779**	4,024	**1,779**	4,024
Financial planning fees		**-**	-	**-**	-
Other fee revenue		**19**	16	**19**	17
Securitisation servicing fees		**-**	-	**7,046**	4,979
Insurance commissions		**3,051**	2,960	**3,051**	2,960
Other commissions		**2,723**	2,122	**2,723**	2,122
Revenue from sale of property developments		**161**	-	**-**	-
Dividend revenue		**1,248**	466	**381**	617
Other income					
Bad debts recovered		**421**	386	**421**	386
Gain on sale of financial assets held at amortised cost		**3,852**	339	**3,852**	339
Other income		**788**	1,252	**788**	1,127
Total non-interest revenue and other income		**17,496**	14,631	**23,514**	19,637
Total income		**147,780**	118,482	**145,947**	117,844
Credit impairment loss/(reversal)	4	**(4,137)**	13,290	**(4,137)**	13,213
Impairment of non financial assets	18,19	**1,572**	-	**910**	-
Finance costs		**1,458**	1,359	**1,459**	1,359
Depreciation and amortisation		**11,918**	11,241	**12,350**	11,233
Fees and commissions		**12,908**	10,838	**12,676**	10,581
Employee benefits expense		**62,685**	47,975	**62,685**	47,975
Information technology costs		**14,538**	11,079	**14,537**	11,079
Marketing costs		**6,669**	5,244	**6,669**	5,243
Other general and administration costs		**18,281**	13,967	**16,396**	13,129
Net (Gain)/loss on disposal of property,plant, equipment		**1,019**	3	**1,019**	3
Total other expenses		**131,048**	101,706	**128,701**	100,602
Total expenditure		**126,911**	114,996	**124,564**	113,815
Profit before income tax from continuing operations		**20,869**	3,486	**21,383**	4,029
Profit before Income tax from discontinued operations	34	**3,083**	1,014	**893**	963
Profit before tax from operations		**23,952**	4,500	**22,276**	4,992
Income tax expense from continuing operations	5	**6,505**	1,177	**6,450**	1,142
Income tax expense from discontinued operations	5	**755**	122	**268**	289
Profit from operations		**16,692**	3,201	**15,558**	3,561
(Profit) / loss attributable to non-controlling interests		**(536)**	(28)	**-**	-
Profit attributable to members		**16,156**	3,173	**15,558**	**3,561**

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

Statements of Other Comprehensive Income

Year Ended 30 June 2021	Notes	Consolidated		Police & Nurses Limited	
		2021	2020	**2021**	2020
		$000	$000	**$000**	$000
Profit for the year		**16,692**	3,201	**15,558**	3,561
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	26(c)	**(9)**	133	**(9)**	133
Income tax relating to these items		**3**	(39)	**3**	(39)
Items that will not be reclassified to profit or loss					
Changes in the fair value of equity instruments held at FVOCI	26(d)	**40**	-	**(2)**	-
Income tax relating to these items		**(12)**	-	**-**	-
Other comprehensive income for the period, net of tax		**22**	94	**(8)**	94
Total comprehensive income for the period		**16,714**	3,295	**15,550**	3,655
Total comprehensive income for the year is attributable to:					
Members of the Bank		**16,177**	3,267	**15,549**	3,655
Non-controlling interests		**536**	28	**-**	-
		16,713	3,295	**15,549**	3,655

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

Statements of Financial Position

As at 30 June 2021	Notes	Consolidated		Police & Nurses Limited	
		2021	2020	**2021**	2020
		$000	$000	**$000**	$000
Assets					
Cash and cash equivalents	6	**204,687**	183,923	**118,758**	110,489
Receivables due from other financial institutions	7	**1,243,940**	810,200	**1,243,940**	810,200
Financial Assets held at FVOCI (i)	8	**9,073**	9,024	**8,713**	8,824
Assets held for sale		**-**	618	**-**	-
Other assets	9	**7,868**	6,361	**4,702**	6,117
Other financial assets held at AC (ii)	10	**21,007**	21,715	**2,479**	179
Other financial assets held at FVPL (iii)	11	**63**	992	**15,916**	15,916
Loans and advances	12	**5,364,282**	5,073,555	**5,364,282**	5,073,555
Derivative financial instruments	14	**391**	385	**391**	385
Due from controlled entities	15	**-**	-	**95,467**	94,079
Property and equipment	16	**29,443**	27,200	**28,052**	25,788
Right-of-use assets	17	**33,613**	30,389	**33,613**	30,389
Investments in controlled entities	18	**-**	-	**3,835**	4,745
Intangible assets	19	**4,599**	6,454	**4,599**	4,882
Current tax assets		**758**	-	**1,532**	-
Deferred tax assets	20	**8,648**	11,495	**8,203**	11,779
Total assets		**6,928,372**	6,182,311	**6,934,482**	6,197,327
Liabilities					
Members' deposits	21	**5,472,468**	4,964,141	**5,474,466**	4,966,115
Other payable	22	**22,689**	11,033	**20,639**	10,967
Lease liabilities	17	**38,853**	35,203	**38,853**	35,203
Derivative financial instruments	14	**747**	730	**747**	698
Current tax liabilities		**-**	103	**-**	129
Borrowings	23	**924,582**	718,246	**704,985**	414,057
Due to controlled entities	15	**-**	-	**225,601**	317,513
Provisions	24	**7,770**	7,814	**7,623**	7,585
Deferred tax liabilities	25	**-**	-	**-**	-
Total liabilities		**6,467,109**	5,737,270	**6,473,914**	5,752,267
Net assets		**461,263**	445,041	**460,568**	445,060
Members' funds					
Reserves	26	**222,062**	222,006	**224,020**	224,006
Retained earnings	26	**87,731**	71,646	**85,829**	70,336
Contributed equity	26	**150,719**	150,719	**150,719**	150,719
Non-controlling interests		**751**	670	**-**	-
Total members' funds		**461,263**	445,041	**460,568**	445,061

(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 and 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 2021	Notes	Consolidated					
		Reserves	Contributed equity	Retained earnings	Total	Non-controlling interests	Total equity
		$000	$000	$000	$000	$000	$000
Revised total member's funds (equity) as at 30 June 2019		221,116	-	68,507	289,623	642	290,265
Profit for the year		-	-	3,173	3,173	28	3,201
Other Comprehensive Income/(loss)		94	-	-	94	-	94
Total Comprehensive Income for the year		**94**	**-**	**3,173**	**3,267**	**28**	**3,295**
Amount transferred to share capital reserve		34	-	(34)	-	-	-
Addition through acquisition		762	150,719	-	151,481	-	151,481
Transactions with owners in their capacity as owners		**796**	150,719	(34)	151,481	-	151,481
Total member's funds (equity) as at 30 June 2020		**222,006**	**150,719**	**71,646**	**444,371**	**670**	**445,041**
Total member's funds as at 1 July 2020		**222,006**	**150,719**	**71,646**	**444,371**	**670**	**445,041**
Profit for the year		-	-	16,156	16,156	536	16,692
Other Comprehensive Income/(loss)		22	-	-	22	-	22
Total Comprehensive Income for the year		**22**	-	16,156	16,178	536	16,714
Adjustment		3	-	-	3	(455)	(452)
Transfer to Retained earnings		49	-	(49)	-	-	-
Amount transferred to share capital reserve	26(b)	22	-	(22)	-	-	-
Changes in the fair value of financial assets held at FVOCI		(40)	-	-	(40)	-	(40)
Transactions with owners in their capacity as owners		**34**	**-**	**(71)**	**(37)**	**(455)**	**(492)**
Total member's funds (equity) as at 30 June 2021		**222,062**	**150,719**	**87,731**	**460,512**	**751**	**461,263**

Year Ended 30 June 2021	Notes	Police & Nurses Limited			
		Reserves	Contributed equity	Retained earnings	Total
		$000	$000	$000	$000
Revised total member's funds (equity) as at 30 June 2019		223,116	-	66,809	289,925
Profit for the year		-	-	3,561	3,561
Other Comprehensive Income/(loss)		94	-	-	94
Total Comprehensive Income for the year		**94**	**-**	**3,561**	**3,655**
Addition through acquisition		762	150,719	-	151,481
Amount transferred to share capital reserve		34	-	(34)	-
Transactions with owners in their capacity as owners		796	150,719	(34)	151,481
Total member's funds (equity) as at 30 June 2020		**224,006**	**150,719**	**70,336**	**445,061**
Total member's funds as at 1 July 2020		**224,006**	**150,719**	**70,336**	**445,061**
Profit for the year		-	-	15,558	15,558
Other Comprehensive Income/(loss)		(8)	-	-	(8)
Total Comprehensive Income for the year		**(8)**	-	15,558	15,550
Transfer to retained earlings		-	-	(43)	(43)
Amount transferred to share capital reserve		22	-	(22)	-
Transactions with owners in their capacity as owners		**22**	**-**	**(65)**	**(43)**
Total member's funds (equity) as at 30 June 2021		**224,020**	**150,719**	**85,829**	**460,568**

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

Statements of Cash Flows

Year Ended 30 June 2021	Notes	Consolidated		Police & Nurses Limited	
		2021	2020	**2021**	2020
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**162,174**	164,042	**162,174**	164,042
Net increase in loans and advances		**(279,759)**	(17,037)	**(279,759)**	(17,037)
Net movement in receivables due from other financial institutions		**(433,648)**	(117,200)	**(430,648)**	(117,200)
Interest received from investments		**9,409**	13,597	**30,560**	32,586
Commissions and other income received		**17,787**	16,955	**21,640**	19,230
Net increase in members' deposits		**505,972**	228,489	**505,995**	229,830
Net borrowings from other financial institutions		**206,336**	(63,177)	**291,928**	18,644
Borrowing costs - members		**(36,444)**	(61,553)	**(36,444)**	(61,557)
Net movement in interest rate swaps		**(39)**	(362)	**42**	(291)
Borrowing costs - banks		**(4,855)**	(12,235)	**(33,857)**	(36,865)
Interest Paid		**(1,459)**	(1,359)	**(1,459)**	(1,359)
Payments to employees and suppliers		**(106,447)**	(104,649)	**(103,563)**	(101,316)
Income taxes paid		**(5,949)**	(4,021)	**(4,585)**	(3,785)
Transaction costs relating to acquisition	35	**-**	(1,274)	**-**	(1,274)
Net cash inflow from operating activities	27	**33,078**	40,216	**119,024**	123,648
Cash flows from investing activities					
Dividends received		**1,248**	466	**681**	327
Proceeds from sale of property and equipment		**142**	2,057	**115**	2,057
Cash received on acquisition	35	**-**	59,873	**-**	59,873
Net proceeds from sale of assets held for sale		**618**	-	**-**	-
Proceeds on sale of financial assets held at amortised cost		**3,852**	339	**3,852**	344
Payments for investments		**(49)**	(198)	**111**	-
Payments for property and equipment		**(7,695)**	(3,341)	**(7,422)**	(1,946)
Payments for intangible assets		**(4,065)**	(2,053)	**(4,065)**	(2,053)
Loans to/repayments from controlled entities		**-**	-	**(97,662)**	(124,183)
Net cash inflow/(outflow) from investing activities		**(5,949)**	57,143	**(104,390)**	(65,581)
Cash flows from financing activities					
Principal element of lease payments		**(6,343)**	(4,760)	**(6,343)**	(4,760)
Member shares issued		**115**	110	**115**	110
Member shares redeemed		**(137)**	(155)	**(137)**	(155)
Net cash inflow from financing activities		**(6,365)**	(4,805)	**(6,365)**	(4,805)
Net increase/(decrease) in cash and cash equivalents held		**20,764**	92,554	**8,269**	53,262
Cash and cash equivalents at the beginning of the year		**183,923**	91,369	**110,489**	57,227
Cash and cash equivalents at the end of the year	6	**204,687**	183,923	**118,758**	110,489

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, Urgent Issues Group 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.

Comparatives

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

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2020:

- AASB Revised Conceptual Framework for Financial Reporting - The revised AASB Framework was effective for the Financial Reporting period beginning on 1 July 2020.

  The AASB Framework provides the AASB with a base of consistent concepts upon which future accounting standards will be developed. The AASB Framework will also assist financial report preparers to develop consistent accounting policies when there is no specific or similar standard that addresses an issue.

  The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts.

The adoption of these standards did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) Principles of consolidation

(i) Subsidiaries

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

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

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 and 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Principles of consolidation (continued)

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 recognises

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

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

(d) Property and equipment

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

An asset may be derecognised when its carrying amount is fully written down.

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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Intangible assets (continued)

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.

(ii) Computer software costs

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls.

The Group carries capitalised software assets at cost less accumulated amortisation and any impairment losses, if any. Costs capitalised include external direct costs of materials and services, direct payroll and payroll related costs of employees' time spent on the implementation of the software.

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. Software maintenance costs continue to be expensed as incurred. Any impairment loss is recognised in the Statements of Profit and Loss when incurred. An asset may be derecognised when its carrying amount is fully written down.

(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.

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income tax (continued)

(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 5(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 and 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.

(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 Statements of Cash Flows, 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(z) and 1(ac) for further information about the Group's accounting policies for financial assets and related impairment.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue recognition

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

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

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

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

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

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

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

(m) Inventories

Land held for resale is stated at the lower of cost or net realisable value. Cost includes the cost of acquisition, development and borrowing costs during development.

Development costs are allocated to individual lots based on the proportion of each lot's sales value relative to total expected development sales. When the development is complete borrowing costs and other holding expenses are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

(n) 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.

See note 1(ab) for further information about the Group's accounting policies for derivatives.

(o) 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.

(p) 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 and 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.

(q) Borrowing costs

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

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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 acquisitiondate- fair-value of the consideration transferred.

Pursuant to the accounting standard AASB 3 *Business Combinations*, the receiving body in a combination of mutual entities, as approved under the Financial sector (Transfers of Business) Act 1999, all assets and liabilities are transferred to 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 26).

Acquisition-related costs are expensed as incurred.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Leases

The Group accounts for leases under AASB 16 and the Leases are recognised as a Right-ofuse asset and a corresponding Lease liability at the commencement date, being the date the leased asset is available for use by the Group (note 17).

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

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

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

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

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

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

(x) Provisions

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Assets and liabilities associated with assets held for sale

Assets are classified as assets held for sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

(z) 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; and
- 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.

(ii) Financial assets measured at fair value

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

A financial asset shall be 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; and
- 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.

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

(iii) Repurchase and securities lending agreements

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

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

(aa) 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)

(ab) Derivatives

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 and 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 and 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.

(ac) Impairment of financial assets

The Bank applies the simplified ECL approach to trade receivables and Amounts held at Amortised Cost. The simplified ECL model used by the Group calculates the provision for ECL by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The credit loss is the sum of these probability weighted outcomes, the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

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

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

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

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) 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 (see also Note 34).

(ae) 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.

(af) 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 2021 reporting periods and have been adopted early by the Group.

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

During the year, the Group reviewed its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. Historical financial information has not been restated due to no retrospective impact identified.

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(ac) 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 (ac).

(ii) Carrying value of goodwill

The Group carries its goodwill at fair value less any accumulated impairment loss recognised in profit or loss.

The key assumptions used in the determination of impairment loss and amortisation are set out in note 19.

(iii) Property development receivable

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

(iv) Assets and liabilities associated with assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, assets and associated liabilities are remeasured in accordance with the Group’s policies. Thereafter the assets are generally measured at the lower of their carrying amount or fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses are recognised in profit or loss.

Notes to the Financial Statements

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(v) 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 and 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 and 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.

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

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

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

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

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

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

Notes to the Financial Statements

3 OPERATING PROFIT

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

	Consolidated					
Year Ended 30 June 2021	**2021**			2020		
Interest revenue and interest expense	**Average balance**	**Interest**	**Average interest rate**	Average balance	Interest	Average interest rate
	$000	**$000**	**%**	$000	$000	%
Interest-earning assets						
Deposits with other banks/ADIs (i)	**1,090,125**	**9,409**	**0.86%**	765,691	13,597	1.78%
Loans and advances (ii)	**5,220,454**	**162,174**	**3.11%**	4,642,346	164,042	3.53%
	6,310,579	**171,583**	**2.72%**	5,408,037	177,639	3.28%
Interest-bearing liabilities						
Members' deposits (ii) (iii)	**4,909,394**	**36,444**	**0.74%**	4,099,161	61,553	1.50%
Borrowings from other banks/ADIs (i)	**735,797**	**4,855**	**0.66%**	923,864	12,235	1.32%
	5,645,191	**41,299**	**0.73%**	5,023,025	73,788	1.47%

	2021	2020
Analysis of net interest income		
Net interest income	**130,284**	103,850
Average interest-earning assets	**6,310,579**	5,408,037
Net interest margin (iv)	**2.06%**	1.92%
Spread (v)	**1.99%**	1.82%

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.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
4 CREDIT IMPAIRMENT LOSS				
Receivables due from other financial institutions	**(92)**	(23)	**(92)**	(23)
Other financial assets held at AC	**3,000**	3,000	**-**	-
Loans and advances	**(6,110)**	9,070	**(6,110)**	9,070
Due from controlled entities	**-**	-	**3,000**	2,923
Undrawn credit commitments	**(935)**	1,243	**(935)**	1,243
	(4,137)	13,290	**(4,137)**	13,213
CREDIT IMPAIRMENT LOSS BY STAGES				
Specific	**3,221**	6,007	**3,221**	5,930
Collective stage 1	**(3,766)**	5,463	**(3,766)**	5,463
Collective stage 2	**(1,897)**	940	**(1,897)**	940
Collective stage 3	**(1,695)**	880	**(1,695)**	880
	(4,137)	13,290	**(4,137)**	13,213
OF WHICH RELATES TO LOANS AND ADVANCES				
Specific	**221**	3,007	**221**	3,007
Collective stage 1	**(3,674)**	5,486	**(3,674)**	5,486
Collective stage 2	**(1,897)**	940	**(1,897)**	940
Collective stage 3	**(1,695)**	880	**(1,695)**	880
	(7,045)	10,313	**(7,045)**	10,313
Undrawn credit commitments	**935**	(1,243)	**935**	(1,243)
	(6,110)	9,070	**(6,110)**	9,070

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
5 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**4,589**	4,743	**3,521**	4,908
Deferred tax	**2,637**	(3,420)	**3,169**	(3,499)
Under/(over) provided for current tax in prior years	**34**	(24)	**28**	22
Income tax expense	**7,260**	1,299	**6,718**	1,431
Income tax expense is attributed to				
Profit from continuing operations	**6,505**	1,176	**6,450**	1,142
Profit from discontinuing operations	**755**	122	**268**	289
Income tax expense	**7,260**	1,299	**6,718**	1,431
Deferred income tax (revenue)/expense include in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 20)	**57**	(10,037)	**300**	(10,149)
Decrease/(increase) in deferred tax liabilities (note 25)	**2,580**	6,617	**2,868**	6,650
	2,637	(3,420)	**3,169**	(3,500)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**23,952**	4,500	**22,276**	4,992
Prima facie income tax calculated at 30% (2020: 30%)	**7,186**	1,350	**6,684**	1,498
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	**22**	71	**22**	70
Tax offset for franked dividends	**(445)**	(140)	**(35)**	(98)
Intragroup dividends	**-**	-	**(90)**	(87)
Fines and penalties	**10**	-	**10**	-
Other	**335**	42	**106**	26
	7,108	1,323	**6,697**	1,409
Prior year losses recouped				
(Over)/under provision in prior year, relating to:				
- Other	**152**	(24)	**21**	22
Income tax expense	**7,260**	1,299	**6,718**	1,431
(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	**-**	-	**-**	-
Net deferred tax – (debited)/charged directly to equity (note 20)	**(3)**	39	**(22)**	39
(d) Franking credits				
Franking credits based on a tax rate of 30%	**166,544**	159,464	**166,340**	159,260

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(i) franking credits that will arise from the payment of the amount of the current tax liability, and

(ii) franking debits that will arise from the refund receivable of the amount of the current tax asset.

Notes to the Financial Statements

5 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 15).

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
6 CASH AND CASH EQUIVALENTS				
Cash on hand	**5,612**	5,719	**5,612**	5,719
Cash and deposits at call with ADIs	**199,075**	178,204	**113,146**	104,770
	204,687	183,923	**118,758**	110,489

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 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	**2020**
	$000	$000	**$000**	**$000**
7 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest-earning deposits with ADIs	**1,244,566**	810,917	**1,244,566**	**810,917**
	1,244,566	810,917	**1,244,566**	**810,917**
Expected credit loss provision	**(626)**	(717)	**(626)**	**(717)**
	1,243,940	810,200	**1,243,940**	**810,200**

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

The ECL provision of $626,000 (2020: $717,000) belongs to stage 1 collective, accounts with no arrears up to 29 days.

The fair value of receivables due from other financial institutions are $1,245,209,000 (2020: $817,915,000).

The Bank has pledged $151,500,000 of receivables due from financial institutions as collateral as part of entering repurchase agreements with the Reserve Bank of Australia as at 30 June 2021. As a result, a portion of this Receivables due from other financial insulations balance is encumbered. Refer to Note 23 for further detail.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
8 FINANCIAL ASSETS HELD AT FVOCI				
Investment in Cuscal (a)	**7,306**	7,306	**7,306**	7,306
Investment in Indue Ltd	**1,397**	1,451	**1,397**	1,451
Investment in other shares	**371**	267	**11**	67
	9,073	9,023	**8,713**	8,824

The above equity investments are held at Fair Value through Other Comprehensive Income.

(a) Investment in Cuscal – unlisted security

Cuscal is an unlisted public company. Under Cuscal's constitution there are no limitations as to who the Bank 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 Bank 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(o)).

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
9 OTHER ASSETS				
Prepayments	**3,664**	3,186	**3,634**	3,162
Other receivables	**4,204**	3,175	**1,068**	2,955
	7,868	6,361	**4,702**	6,117

Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
10 OTHER FINANCIAL ASSETS HELD AT AC				
Land and property development	**28,274**	28,282	**-**	-
Other financial receivables	**2,479**	179	**2,479**	179
	30,753	28,461	**2,479**	179
Expected credit loss provision	**(9,746)**	(6,746)	**-**	-
	21,007	21,715	**2,479**	179
Expected credit loss provision				
Opening balance	**6,746**	3,746	**-**	-
Expected credit loss provision provided for during the year	**3,000**	3,000	**-**	-
Closing balance	**9,746**	6,746	**-**	-

Land and property development include $28,274,000 (2020: $28,282,000) 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. An independent valuation was performed by JLL in April 2021, which supports the carrying value.

A further expected credit loss provision of $3,000,000 (2020: $3,000,000) was made during the year.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
11 OTHER FINANCIAL ASSETS AT FVPL				
Investment in securitisation notes	**-**	-	**15,916**	15,916
Investment in Land and property development	**63**	992	**-**	-
	63	992	**15,916**	15,916

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
12 LOANS AND ADVANCES				
Home loans	**4,946,801**	4,739,431	**4,946,801**	4,739,431
Secured overdrafts	**58,134**	28,747	**58,134**	28,747
Personal loans	**38,658**	47,039	**38,658**	47,039
Overdraft & credit cards	**42,857**	43,100	**42,857**	43,100
Retail loans and advances	**5,086,450**	4,858,317	**5,086,450**	4,858,317
Commercial & property finance	**279,027**	228,047	**279,027**	228,047
Gross loans and advances	**5,365,477**	5,086,364	**5,365,477**	5,086,364
Effective interest rate adjustment *	**7,968**	6,356	**7,968**	6,356
Expected credit loss provision (a)	**(9,163)**	(19,165)	**(9,163)**	(19,165)
Net loans and advances	**5,364,282**	5,073,555	**5,364,282**	5,073,555

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

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

In financial year 2021, the fair value of Loans and Advances was $38,451,000 (2020: $10,850,000) higher than gross carrying value.

Notes to the Financial Statements

12 LOANS AND ADVANCES (continued)

The maturity tables are based on contractual terms.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Time to maturity				
Not later than one year	**176,446**	183,726	**176,446**	183,726
One year to five years	**93,589**	70,651	**93,589**	70,651
Over five years	**5,095,442**	4,831,987	**5,095,442**	4,831,987
	5,365,477	5,086,364	**5,365,477**	5,086,364

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Securitised Loans under management				
Pinnacle Series Trust 2013-T1	**33,936**	41,599	**33,936**	41,599
Pinnacle Series Trust 2014-SST	**1,573,725**	1,579,696	**1,573,725**	1,579,696
Pinnacle RMBS Warehouse Trust	**59,413**	88,360	**59,413**	88,360
Pinnacle Series Trust 2017-T1	**131,744**	183,092	**131,744**	183,092
	1,798,818	1,892,747	**1,798,818**	1,892,747

All trusts are consolidated as part of the Group (note 15). In accordance with AASB 9 *Financial Instruments*, the mortgages securitised in the trusts remain on the Statements of Financial Position of the Bank.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
(a) Loan expected credit loss provision				
Specific	**2,174**	4,556	**2,177**	4,556
Collective stage 1	**6,641**	11,671	**6,641**	11,671
Collective stage 2	**136**	1,351	**136**	1,351
Collective stage 3	**207**	1,587	**207**	1,587
	9,158	19,165	**9,161**	19,165
Undrawn credit commitments	**(1,166)**	(3,035)	**(1,165)**	(3,035)
	7,992	16,130	**7,996**	16,130
(b) Loan credit impairment losses				
Opening balance	**16,130**	5,834	**16,130**	5,834
Addition through acquisition	**-**	3,635	**-**	3,635
Bad debts previously provided for written off	**(2,028)**	(2,409)	**(2,024)**	(2,409)
Bad and doubtful debts provided for during the year	**(6,110)**	9,070	**(6,110)**	9,070
Closing balance	**7,992**	16,130	**7,996**	16,130

Notes to the Financial Statements

13 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION

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

Year Ended 30 June 2021	Consolidated					
	Receivables due from financial institutions $000	Other financial assets held at AC $000	Loans and advances $000	Due from controlled entities $000	Undrawn credit commitments $000	Total $000
Balance as at 30 June 2019	**220**	**3,746**	**5,834**	**-**	**278**	**10,078**
Addition through acquisition	520	-	3,635	-	1,514	5,669
Impairment expense/(reversal)	(23)	3,000	9,070	-	1,243	13,290
Amounts written off, previously provided for	-	-	(2,409)	-	-	(2,409)
Balance as at 30 June 2020	**717**	**6,746**	**16,130**	**-**	**3,035**	**26,628**
Addition through acquisition	-	-	-	-	-	-
Impairment expense/(reversal)	(92)	3,000	(6,110)	-	(935)	(4,137)
Amounts written off, previously provided for	-	-	(2,023)	-	(934)	(2,957)
Balance as at 30 June 2021	**625**	**9,746**	**7,997**	**-**	**1,166**	**19,534**

Year Ended 30 June 2021	Police & Nurses Limited					
	Receivables due from financial institutions $000	Other financial assets held at AC $000	Loans and advances $000	Due from controlled entities $000	Undrawn credit commitments $000	Total $000
Balance as at 30 June 2019	**220**	**-**	**5,834**	**3,823**	**278**	**10,155**
Addition through acquisition	520	-	3,635	-	1,514	5,669
Impairment expense/(reversal)	(23)	-	9,070	2,923	1,243	13,213
Amounts written off, previously provided for	-	-	(2,409)	-	-	(2,409)
Balance as at 30 June 2020	**717**	**-**	**16,130**	**6,746**	**3,035**	**26,628**
Addition through acquisition	-	-	-	-	-	-
Impairment expense/(reversal)	(92)	-	(6,110)	3,000	(935)	(4,137)
Amounts written off, previously provided for	-	-	(2,024)	-	(934)	(2,958)
Balance as at 30 June 2021	**625**	**-**	**7,996**	**9,746**	**1,165**	**19,533**

Notes to the Financial Statements

13 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2021

	Consolidated				
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit imparied	Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
	$000	$000	$000	$000	$000
(a) LOAN AND ADVANCES					
Balance as at 30 June 2019	**1,577**	**680**	**920**	**2,935**	**6,112**
Addition through acquisition	3,856	321	11	959	5,147
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	854	(508)	(222)	(124)	-
Transferred to Lifetime ECL - not credit impaired	(67)	82	-	(15)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(26)	(82)	120	(12)	-
Transferred to Lifetime ECL - credit impaired - specific provision	(9)	(84)	(122)	215	-
Bad debts written off	-	-	-	(2,409)	(2,409)
Charge to income statement from continuing operations	5,486	940	880	3,007	10,313
Balance as at 30 June 2020	**11,671**	**1,349**	**1,587**	**4,556**	**19,163**
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	(1,565)	677	500	388	-
Transferred to Lifetime ECL - not credit impaired	137	(210)	56	17	-
Transferred to Lifetime ECL - credit impaired - collective provision	35	169	(423)	215	(4)
Transferred to Lifetime ECL - credit impaired - specific provision	37	48	182	(266)	1
Bad debts written off	-	-	-	(2,957)	(2,957)
Charge/(reversal of impairment) to income statement from continuing operations	(3,674)	(1,897)	(1,695)	221	(7,045)
Balance at 30 June 2021	**6,641**	**136**	**207**	**2,174**	**9,158**

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

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

Economic conditions while still challenging are improving, notably lower unemployment, improvements in GDP and strengthening house prices. It is however recognised that the COVID-19 vaccination roll-out has been slow with out-breaks and lock downs likely to continue until the population is fully vaccinated which could take another 9 to 12 months. The Group believes it prudent to remain cautious and continue to monitor economic conditions and delinquency levels as the country recovers from the disruption of COVID-19.

Notes to the Financial Statements

13 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Sensitivity of provisions for ECL to changes in forward looking assumptions

As described in Note 33(c), the Group applies three alternative 5-year macro-economic scenarios (Base, Upside and Downside scenarios) to reflect unbiased probability-weighted range of possible future outcomes in estimating ECL.

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

- Unemployment will remain relatively stable at around 5.5%.
- GDP growth of 3% year on year is expected.

The Downside scenario is set relative to the Base scenario using macroeconomic conditions that represent plausible but less likely alternatives to the Base scenario. Assuming 100% weighting on the Base scenario and holding all other assumptions (including forward looking adjustments) constant the Group's provision for impairment would be approximately $19,479,185 compared to $19,533,466 provision for impairment recognised as at 30 June 2021. 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 $19,979,519.

COVID-19 Support measures

During FY21, the Group continued to support members impacted by COVID-19, largely through loan repayment deferrals for retail and commercial members. The compound interest was capitalised during the repayment pause, and after the repayment pause, the minimum monthly repayments were recalculated in order to repay the loan within the original repayment term. The repayment deferral arrangements were considered to be continuations of the existing loans and were therefore accounted as non-substantial loan modifications. No modification gain or loss was recognised as a result of the payment deferral arrangements. Loans with a gross carrying value of approximately $367,978,000 were subject to COVID-19 related payment deferrals in FY21. There were no loans subject to payment deferral at year end. There are less than 10 members with total exposure less than $5m that are in financial hardship as a result of COVID impacts at year end and they are well secured.

Year Ended 30 June 2021			Consolidated		
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
	$000	$000	$000	$000	$000
(b) OTHER FINANCIAL ASSETS HELD AT AC					
Balance as at 30 June 2019	-	-	-	**3,746**	**3,746**
Charge to income statement from continuing operations	-	-		3,000	3,000
Balance as at 30 June 2020	-	-	-	**6,746**	**6,746**
Charge to income statement from continuing operations	-	-	-	**3,000**	**3,000**
Balance at 30 June 2021	-	-	-	**9,746**	**9,746**

Other financial assets held at AC includes a loan to Pindan Two Rocks Pty Ltd in its personal capacity and as trustee for the Pindan Capital Two Rocks Trust (Receivers and Managers Appointed). The full loan is due and payable and Receivers were appointed to enforce our rights for non-payment. A total specific provision of $9,746,000 exists against this loan.

Notes to the Financial Statements

13 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2021 — **Police & Nurses Limited**

	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit $000	Stage 3 Collective provision Lifetime ECL credit $000	Specific provision Lifetime ECL $000	Total $000
(c) LOAN AND ADVANCES					
Balance as at 30 June 2019	**1,577**	**680**	**920**	**2,935**	**6,112**
Addition through acquisition	3,856	321	11	959	5,147
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	854	(508)	(222)	(124)	-
Transferred to Lifetime ECL - not credit impaired	(67)	82	-	(15)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(26)	(82)	120	(12)	-
Transferred to Lifetime ECL - credit impaired - specific provision	(9)	(84)	(122)	215	-
Bad debts written off	-	-	-	(2,409)	(2,409)
Charge to income statement from continuing operations	5,486	940	880	3,007	10,313
Balance as at 30 June 2020	**11,671**	**1,349**	**1,587**	**4,556**	**19,163**
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	(1,565)	677	500	388	-
Transferred to Lifetime ECL - not credit impaired	137	(210)	56	21	4
Transferred to Lifetime ECL - credit impaired - collective provision	35	169	(423)	215	(4)
Transferred to Lifetime ECL - credit impaired - specific provision	37	48	182	(267)	-
Bad debts written off	-	-	-	(2,957)	(2,957)
Charge/(reversal of impairment) to income statement from continuing operations	(3,674)	(1,897)	(1,695)	221	(7,045)
Balance at 30 June 2021	**6,641**	**136**	**207**	**2,177**	**9,161**

The table includes the allocation of the undrawn credit commitments.

Notes to the Financial Statements

13 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2021	Police & Nurses Limited				
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
	$000	$000	$000	$000	$000
(d) DUE FROM/TO CONTROLLED ENTITIES					
Balance as at 30 June 2019	-	-	-	**3,823**	**3,823**
Restated for adoption of new accounting standards	-	-	-	-	-
Changes due to financial assets recognised in the opening balances that have:					
Transferred to Lifetime ECL - credit impaired - specific provision	-	-	-	-	-
Charge to income statement from continuing operations	-	-	-	2,923	2,923
Balance as at 30 June 2020	**-**	**-**	**-**	**6,746**	**6,746**
Changes due to financial assets recognised in the opening balances that have:					
Charge to income statement from continuing operations	-	-	-	3,000	3,000
Balance at 30 June 2021	**-**	**-**	**-**	**9,746**	**9,746**

Due from/to controlled entities includes intercompany receivable from the Bank to P&N Landreach Pty Ltd. A total specific provision of $9,746,000 has been raised against this intercompany receivable.

14 DERIVATIVE FINANCIAL INSTRUMENTS

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	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 and loss - assets	**-**	31	**-**	31
Interest rate swaps - held as cash flow hedges - assets	**391**	354	**391**	354
	391	385	**391**	385
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**-**	32	**-**	-
Interest rate swaps - held as cash flow hedges - liabilities	**747**	698	**747**	698
	747	730	**747**	698

Notes to the Financial Statements

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021 Notional Amount $000	2020 Notional Amount $000	**2021 Notional Amount $000**	2020 Notional Amount $000
(ii) Notional amount				
Derivative financial assets				
Interest rate swaps - fair value through profit and loss - assets	**-**	2,514	**-**	2,514
Interest rate swaps - held as cash flow hedges - assets	**65,000**	25,000	**65,000**	25,000
	65,000	27,514	**65,000**	27,514
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**-**	2,514	**-**	-
Interest rate swaps - held as cash flow hedges - liabilities	**180,000**	60,000	**180,000**	60,000
	180,000	62,514	**180,000**	60,000

(a) Terms and conditions

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

The Group pays fixed interest on swaps with a notional amount of $185,000,000 (2020: $62,514,000), on which it pays 0.11% to 2.01% interest (2020: 0.43% to 2.50%) 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 $185,000,000 (2020: $60,000,000), on which it pays 0.11% to 2.01% interest (2020: 0.43% to 2.08%) and receives interest calculated at a variable rate on the notional amount.

The Group receives fixed interest on swaps with a notional amount of $60,000,000 (2020: $27,514,000), on which it receives 0.19% to 0.94% interest (2020: 0.23% to 2.46%) 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 $60,000,000 (2020: $27,514,000), on which it receives 0.19% to 0.94% interest (2020: 0.23% to 2.46%) 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 and 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.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021 $000	2020 $000	**2021 $000**	2020 $000
Maturity period				
Less than one year	**-**	-	**-**	-
More than one year but less than two years	**39**	-	**39**	-
More than two years but less than five years	**269**	256	**269**	256
Five years or more	**(11)**	31	**(11)**	31
Net deferred losses	**297**	287	**297**	287

(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(o)). The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
15 DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	-	-	**28,938**	30,520
Deferred securitisation receivable	-	-	**76,275**	70,305
	-	-	**105,213**	100,825
Expected credit loss provision	-	-	**(9,746)**	(6,746)
	-	-	**95,467**	94,079
Expected credit loss provision				
Opening balance	-	-	**6,746**	3,823
Change on transition to AASB 9	-	-	**-**	-
Expected credit loss provision provided for during the year	-	-	**3,000**	2,923
Closing balance	-	-	**9,746**	6,746
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	-	-	**225,601**	317,513
	-	-	**225,601**	317,513

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

As at 30 June 2021, 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 $1,573,406,000 (2020: $1,579,696,000) and the gross amounts due from the Pinnacle Series Trust 2014-SST were $1,650,000,000 (2020: $1,650,000,000).

The Bank has been granted a secured Term Funding Facility (TFF) by the Reserve Bank of Australia (RBA) for the amount $251,189,000 (2020: $153,127,000) (note 29). As at 30 June 2021, the Bank has drawn down $249,780,000 (2020: $59,986,000) against the RBA TFF. As a result, $295,649,000 (2020: $71,000,000) out of a total of $1,465,000,000 (2020: 1,465,000,000) self-securitisation A Notes held, are encumbered.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
16 PROPERTY AND EQUIPMENT				
Land and buildings				
At fair value	**8,869**	8,756	**7,473**	7,360
Accumulated depreciation	**(218)**	(82)	**(188)**	(75)
	8,651	8,674	**7,285**	7,285
Leasehold improvements				
At cost	**23,373**	19,443	**23,373**	19,443
Accumulated depreciation	**(10,039)**	(7,388)	**(10,039)**	(7,388)
	13,334	12,055	**13,334**	12,055
Equipment				
At cost	**12,913**	9,981	**12,839**	9,936
Accumulated depreciation	**(5,455)**	(3,510)	**(5,406)**	(3,488)
	7,458	6,471	**7,433**	6,448
Total property and equipment	**29,443**	27,200	**28,052**	25,788

Notes to the Financial Statements

16 PROPERTY AND EQUIPMENT (continued)

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

Year Ended 30 June 2021	Consolidated				Police & Nurses Limited			
	Land and buildings	Leasehold improvements	Equipment	Total	Land and buildings	Leasehold improvements	Equipment	Total
		$000	$000	$000		$000	$000	$000
Carrying amount at 1 July 2019	-	10,280	5,296	15,576	-	10,280	5,251	15,531
Addition through acquisition	9,390	2,864	1,313	13,567	9,390	2,864	1,313	13,567
Additions	1,396	1,975	1,542	4,913	-	1,974	1,542	3,516
Disposals	(2,015)	(881)	(57)	(2,953)	(2,015)	(881)	(57)	(2,953)
Depreciation expense	(97)	(2,183)	(1,623)	(3,903)	(90)	(2,183)	(1,601)	(3,874)
Carrying amount at 30 June 2020	8,674	12,055	6,471	27,200	7,285	12,055	6,448	25,788
Carrying amount at 1 July 2020	**8,674**	**12,055**	**6,471**	**27,200**	**7,285**	**12,055**	**6,448**	**25,788**
Additions	**113**	**3,931**	**3,058**	**7,102**	**113**	**3,931**	**3,015**	**7,059**
Disposals	**-**	**(2)**	**(139)**	**(141)**	**-**	**(2)**	**(113)**	**(115)**
Depreciation expense	**(136)**	**(2,650)**	**(1,932)**	**(4,718)**	**(113)**	**(2,650)**	**(1,917)**	**(4,680)**
Carrying amount at 30 June 2021	**8,651**	**13,334**	**7,458**	**29,443**	**7,285**	**13,334**	**7,433**	**28,052**

16(a) REVALUATION OF LAND AND BUILDINGS

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

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

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
At cost	**8,756**	10,786	**7,360**	9,390
Accumulated depreciation	**113**	(97)	**113**	(90)
Disposal	**(218)**	(2,015)	**(188)**	(2,015)
Net book value	**8,651**	8,674	**7,285**	7,285

Notes to the Financial Statements

17 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 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Right-of-use assets				
Buildings	**33,613**	30,389	**33,613**	30,389
Net book value	**33,613**	30,389	**33,613**	30,389
Lease liabilities	**38,853**	35,203	**38,853**	35,203
	38,853	35,203	**38,853**	35,203

During the previous reporting period, additional Right-of-use assets and lease liabilities were taken on from BCCU Ltd as part of the acquisition.

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

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Depreciation charge of right-of-use assets (buildings)	**5,996**	4,991	**5,996**	4,991
Interest expense (included in finance cost)	**749**	627	**749**	627
Expense relating to outgoings and variable lease payments not included in lease liabilities (included in other general and administration costs)	**1,214**	861	**1,214**	861
Expense related to low value leases or short term leases, exempt from AASB 16 (included in other general and administration costs)	**(61)**	63	**(61)**	63
Total expenses related to leases	**7,898**	6,542	**7,898**	6,542

The Group adopted AASB 16 *Leases* using the modified retrospective transition option in the financial year ended 30 June 2020. The reclassifications and the adjustments arising from the new leasing rules were recognised as an adjustment to the Group's retained earnings as at 1 July 2019. The Right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

Notes to the Financial Statements

18 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 2021	Consolidated			
	Interests in Controlled Entities		Value of Investment in Controlled Entities	
			Held by the Bank	Held by the Bank
	2021	2020	2021	2020
	%	%	$	$
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**	2,550,080
P&N Recruitment Pty Ltd	**100**	100	**100**	100
Pinnacle RMBS Warehouse Trust No 1	**100**	100	**-**	-
Pinnacle Series Trust 2010 - T1	**100**	100	**-**	-
Pinnacle Series Trust 2013 - T1	**100**	100	**-**	-
Pinnacle Series Trust 2014 - SST	**100**	100	**-**	-
Pinnacle Series Trust 2017 - T1	**100**	100	**-**	-
			3,835,463	4,745,463

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

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

Using appropriate assumptions both methods give the same result.

As discussed in Note 34 Discontinued Operations, Police & Nurses Financial Planning Pty Ltd. ("PNFP") entered into a sales agreement to sell the entity's core assets & liabilities to an outside buyer on 30 June 2021. PNFP is expected to be formally closed in a subsequent financial year, paying all remaining proceeds out as dividends to the Bank and the minority non controlling interest.

Based on the selling price of the PNFP core assets and liabilities, Bank management has determined the Investment in Controlled Entities-PNFP may be impaired and thus an impairment test was performed. After calculating the estimated future, post tax cash flows that the Bank would receive on the ultimate deregistration of PNFP and comparing this to the carrying amount of the Investment in Controlled Entity- PNFP, an impairment loss of $910,000 was recognised by the Bank.

In FY20, no impairment tests were required as there were no impairment triggers.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
19 INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**-**	1,572	**-**	-
	-	1,572	**-**	-
Computer Software (ii)				
At cost	**17,310**	14,427	**17,310**	14,427
Accumulated amortisation	**(13,052)**	(11,381)	**(13,052)**	(11,381)
	4,258	3,046	**4,258**	3,046
WIP - Intangible (iii)				
At cost	**341**	1,836	**341**	1,836
Accumulated amortisation	**-**	-	**-**	-
	341	1,836	**341**	1,836
Total intangible assets	**4,599**	6,454	**4,599**	4,882
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	**1,572**	1,572	**-**	-
Impairment charge	**(1,572)**	-	**-**	-
Closing carrying amount	**-**	1,572	**-**	-
(ii) Computer software				
Opening carrying amount	**3,046**	4,176	**3,046**	4,176
Additions	**4,065**	1,269	**4,065**	1,269
Disposals	**(1,181)**	-	**(1,181)**	-
Amortisation charge *	**(1,672)**	(2,399)	**(1,672)**	(2,399)
Closing carrying amount	**4,258**	3,046	**4,258**	3,046
(iii) WIP - Intangible				
Opening carrying amount	**1,836**	933	**1,836**	933
Additions	**3,463**	2,247	**3,463**	2,247
Transfer	**(4,958)**	(1,344)	**(4,958)**	(1,344)
Amortisation charge *	**-**	-	**-**	-
Closing carrying amount	**341**	1,836	**341**	1,836
Total intangible assets	**4,599**	6,454	**4,599**	4,882

* The amortisation charge is included in depreciation and amortisation in the Statements of Profit and Loss.

(a) Impairment test for goodwill

Goodwill acquired is in relation to Police & Nurses Financial Planning Pty Ltd (PNFP). The recoverable value of the goodwill is determined based on value-in-use calculations.

The group tests whether goodwill has suffered any impairment on an annual basis. For the 2020 reporting period, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions and historical figures, such as past performance and its expectations for the future which reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 2.5%. A discount rate of 12.5% per annum pre tax was used in FY20.

Notes to the Financial Statements

19 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill (continued)

As discussed in Note 34 Discontinued Operations, PNFP entered into a sales agreement to sell the entity's core assets & liabilities to an outside buyer. Refer to Note 34 Discontinued Operations for details of the sale.

Following the sale of the PNFP at period end, the recalculated recoverable amount of the CGUs as at 30 June 2021 resulted in an impairment loss of $1,572,000 and was recognised by the Group for the PNFP CGU, reducing the carrying amount of the goodwill for this CGU to $nil. In FY20, the impairment tests for goodwill determined no charge for impairment was required.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
20 DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Provisions for impairment on loans and other receivables	**5,860**	7,884	**5,860**	7,989
Derivative	**199**	192	**201**	192
Property and equipment	**22**	85	**22**	74
Intangible assets	**-**	325	**-**	325
Lease liabilities	**11,656**	10,561	**11,656**	10,561
Provisions	**2,333**	2,295	**2,287**	2,227
Accruals	**1,580**	152	**968**	123
Other	**515**	892	**708**	892
	22,165	22,386	**21,702**	22,383
Tax Losses carried forward	**-**	-	**-**	-
Offset from/to deferred tax liabilities (note 25)	**(13,517)**	(10,891)	**(13,499)**	(10,604)
Net deferred tax assets	**8,648**	11,495	**8,203**	11,779
Movements:				
Opening balance	**22,386**	5,116	**22,383**	4,999
Change on transition to AASB 16	**-**	1,184	**-**	1,184
Adjustment related to prior period	**(185)**	-	**(403)**	-
Adjusted opening balance	**22,201**	6,300	**21,980**	6,183
Addition through acquisition	**-**	5,461	**-**	5,461
(Charged)/credited to the income statement (note 5)	**(58)**	10,037	**(300)**	10,149
Charged to equity (note 5) & (note 26(c))	**22**	(39)	**22**	(39)
Other	**-**	627	**-**	629
Closing balance	**22,165**	22,386	**21,702**	22,383
Unrecognised temporary differences:				
Valuation of financial instruments for which deferred tax assets have not been recognised:	**600**	600	**-**	-
	600	600	**-**	-

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

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
21 MEMBERS' DEPOSITS				
Call deposits	**2,929,951**	2,360,650	**2,931,949**	2,362,625
Term deposits *	**2,508,944**	2,567,239	**2,508,944**	2,567,238
Retirement savings account deposits	**32,452**	35,109	**32,452**	35,109
Withdrawable shares	**1,121**	1,143	**1,121**	1,143
	5,472,468	4,964,141	**5,474,466**	4,966,115

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 33.

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

The fair value of Members' deposits for the financial year ended June 2021 were $1,125,000 (2020:$3,653,000) higher than the carrying value.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	Number of shares	Number of shares	**Number of shares**	Number of shares
(a) Members' shares				
Number of $10 shares (fully paid)	**109,150**	111,505	**109,150**	111,505
Number of $10 shares (partially paid $6)	**4,190**	4,279	**4,190**	4,279
Number of $10 shares (partially paid $2)	**1,093**	1,132	**1,093**	1,132
Number of $0 shares	**584**	598	**584**	598
Number of $10 on-call shares	**44,877**	34,793	**44,877**	34,793
	159,894	152,307	**159,894**	152,307
Movements:				
Opening number of shares	**152,307**	96,471	**152,307**	96,471
Additions through acquisition	**-**	51,645	**-**	51,645
New shares issued during the year	**11,531**	10,985	**11,531**	10,985
Resignations during the year	**(3,944)**	(6,794)	**(3,944)**	(6,794)
Closing balance	**159,894**	152,307	**159,894**	152,307

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.

Upon the merger in FY20, all members of BCCU Ltd ceased to be members of BCCU Ltd and became members of the Company. The BCCU Ltd redeemable preference shares were cancelled. Where a BCCU Ltd member held a $10 share fully paid, they were deemed to be issued a Company member share issued at $10 fully paid, and where a BCCU Ltd member held a $10 share partly paid they were deemed to be issued a Company member share issued at $10, partly paid to the same amount.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
22 OTHER PAYABLES				
Other payables	**22,689**	11,033	**20,639**	10,967
	22,689	11,033	**20,639**	10,967

Other payables are normally settled within 12 months.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
23 BORROWINGS				
Secured by home loan portfolios	**218,597**	304,189	**-**	-
Unsecured	**305,870**	354,071	**305,870**	354,071
Term Funding Facility	**250,120**	59,986	**250,120**	59,986
Repurchase agreements	**149,995**	-	**149,995**	-
	924,582	718,246	**705,985**	414,057

As at 30 June 2021, the Bank has drawn down $250,120,000 (2020: $59,986,000) against the RBA Term Funding Facility (notes 15 and 29).

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

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
24 PROVISIONS				
Employee benefits (a)	**6,917**	7,188	**6,770**	6,959
Make good (b)	**853**	626	**853**	626
	7,770	7,814	**7,623**	7,585

(a) Provision for employee benefits

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

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Within the next 12 months	**5,317**	5,584	**5,218**	5,418
Between one and two years	**289**	360	**259**	360
Later than two years	**1,311**	1,244	**1,293**	1,180
	6,917	7,188	**6,770**	6,958

Notes to the Financial Statements

24 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 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Opening balance	**653**	-	**653**	-
Addition through acquisition	**-**	677	**-**	677
Make good provided for during the year	**200**	-	**200**	-
Adjustment to the provision	**-**	(24)	**-**	(24)
Closing balance	**853**	653	**853**	653

Based on previous experience, the Group expects the make good provision to be paid out as follows:

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Within the next 12 months	**139**	175	**139**	175
Between one and two years	**84**	70	**84**	70
Later than two years	**630**	218	**630**	218
	853	463	**853**	463

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 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
25 DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Financial assets at FVOCI	**1,147**	1,146	**1,129**	1,146
Receivables	**-**	279	**-**	-
Derivative	**102**	108	**102**	108
Property and equipment	**1,671**	738	**1,671**	738
Intangible assets	**1,166**	-	**1,166**	-
Right-of-use-assets	**9,267**	8,198	**9,267**	8,198
Other	**164**	422	**164**	414
	13,517	10,891	**13,499**	10,604
Offset to/from deferred tax assets (note 20)	**(13,517)**	(10,891)	**(13,499)**	(10,604)
Net deferred tax liabilities	**-**	-	**-**	-
Movements:				
Opening balance	**10,891**	1,403	**10,604**	1,083
Addition through acquisition	**-**	2,842	**-**	2,842
Adjustment related to prior period	**28**	-	**27**	-
Adjusted opening balance	**10,919**	-	**10,631**	-
Credited to the income statement (note 5)	**2,580**	6,617	**2,868**	6,650
Charge to the equity	**18**	-	**-**	-
Other	**-**	29	**-**	29
Closing balance	**13,517**	10,891	**13,499**	10,604

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
26 MEMBERS' FUNDS				
Reserves				
General reserve (a)	**220,000**	220,000	**220,000**	220,000
Share capital reserve (b)	**1,702**	1,680	**1,702**	1,680
Cash flow hedge reserve (c)	**(207)**	(201)	**(207)**	(201)
Financial asset held at FVOCI reserve (d)	**567**	527	**2,525**	2,527
Addition through acquisition	**-**	2,467	**-**	2,467
Reclassification to retained earnings	**-**	(2,467)	**-**	(2,467)
	222,062	222,006	**224,020**	224,006
Retained earnings				
Balance at beginning of year	**71,646**	68,887	**70,336**	67,189
Change on transition to AASB 16	**-**	(380)	**-**	(380)
Prior year ta adjustment	**-**	-	**-**	-
Adjusted balance at beginning of year	**71,646**	68,507	**70,336**	66,809
Profit for the year	**16,156**	3,173	**15,558**	3,561
Total available for appropriation	**87,802**	71,680	**85,894**	70,370
Amount transferred from OCI	**(49)**	-	**(43)**	-
Amount transferred to share capital reserve (b)	**(22)**	(34)	**(22)**	(34)
Balance at end of year	**87,731**	71,646	**85,829**	70,336
Contributed equity				
Balance at beginning of year	**150,719**	-	**150,719**	-
Addition through acquisition	**-**	150,719	**-**	150,719
Balance at end of year	**150,719**	150,719	**150,719**	150,719

(a) General reserve

The general reserve represents an historical transfer from retained earnings.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
(b) Share capital reserve				
Balance at beginning of year	**1,680**	884	**1,680**	884
Addition through acquisition	**-**	762	**-**	762
Transfer from retained profits	**22**	34	**22**	34
Balance at end of year	**1,702**	1,680	**1,702**	1,680

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

26 MEMBERS' FUNDS (continued)

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
(c) Cash flow hedge reserve				
Balance at beginning of year	**(201)**	(295)	**(201)**	(295)
New cash flow hedges	**(328)**	4	**(328)**	4
Revaluation of cash flow hedge instruments	**268**	21	**268**	21
Cash flow hedges recycled to income statement	**43**	96	**43**	96
Ineffective gains recognised in the income statement	**8**	12	**8**	12
Income tax on revaluation (note 20)	**3**	(39)	**3**	(39)
Changes in the fair value of cash flow hedges, net of tax	**(6)**	94	**(6)**	94
Balance at end of year	**(207)**	(201)	**(207)**	(201)

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(n). Amounts are reclassified to profit or loss when the associated hedge transaction affects profit or loss.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
(d) Financial assets held at FVOCI reserve				
Balance at beginning of year	**527**	527	**2,527**	2,527
Revaluation increase for the year, net of tax	**40**	-	**(2)**	-
Revaluation decrease for the year, net of tax	**(49)**	-	**(49)**	-
Amount transferred to Retained Earnings	**49**	-	**49**	-
Addition through acquisition	**-**	4,794	**-**	4,794
Revaluation of land and buildings	**-**	(4,794)	**-**	(4,794)
Balance at end of year	**567**	527	**2,525**	2,527

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 8).

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
27 NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the operating profit after tax to the net cash flows from operations				
Profit after income tax	**16,692**	3,201	**15,558**	3,561
Depreciation and amortisation	**11,933**	11,261	**12,350**	11,232
Credit impairment loss/(reversal)	**(4,137)**	13,291	**(4,137)**	13,214
Bad debts recovered	**(421)**	(386)	**(421)**	(386)
(Gain)/Loss on disposal of property and equipment	**(1,790)**	3	**1,019**	3
Dividend received	**(1,248)**	(466)	**(681)**	(327)
Increase/(decrease) in provisions	**119**	851	**201**	879
Decrease/(increase) in investment	**49**	198	**112**	5
Increase in loans	**(279,759)**	(17,037)	**(279,759)**	(17,037)
(Decrease)/increase in net borrowings from other financial institutions	**206,336**	(63,177)	**291,928**	18,644
Increase in interest earning investments	**(433,648)**	(117,200)	**(433,648)**	(117,200)
Decrease/(increase) in other receivables	**(30)**	589	**1,887**	(27)
Increase/(decrease) in member deposits	**505,972**	228,489	**505,995**	229,830
(Decrease)/increase in interest rate swaps	**(39)**	(362)	**42**	(291)
(Decrease)/increase in accrued expenses and other payables	**9,471**	(15,571)	**7,136**	(14,935)
Increase/(decrease) in current tax liabilities	**-**	914	**(1,654)**	970
(Increase)/(decrease in deferred tax asset	**522**	(15,290)	**3,568**	(3,717)
Increase/(decrease) in deferred tax liabilities	**2,367**	11,654	**-**	5
(Increase)/decrease in sundry debtors and prepayments	**(478)**	(746)	**(472)**	(775)
Fair value adjustment to investment property	**1,167**	-	**-**	-
Net cash inflow/(outflow) from operating activities	**33,078**	40,216	**119,024**	123,648

(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 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Net debt				
Cash and cash equivalents	**204,687**	183,923	**118,758**	110,489
Borrowings - repayable within one year (including overdraft)	**(502,332)**	(427,759)	**(455,869)**	(354,071)
Borrowings - repayable after one year	**(422,250)**	(290,487)	**(250,116)**	(59,986)
Net Debt	**(719,895)**	(534,323)	**(587,227)**	(303,568)
Cash and liquid investments	**204,687**	183,923	**118,758**	110,489
Gross debt - fixed interest rates	**(705,985)**	(414,057)	**(705,985)**	(414,057)
Gross debt - variable interest rates	**(218,597)**	(304,189)	**-**	-
Net Debt	**(719,895)**	(534,323)	**(587,227)**	(303,568)

Notes to the Financial Statements

27 NOTES TO THE CASH FLOW STATEMENTS (continued)

Year Ended 30 June 2021	Other assets Cash	Liabilities from financing activities Borrowings due < 1 year	Borrowings due > 1 year	Total
	$000	$000	$000	$000
Consolidated				
Net debt as at 1 July 2019	91,369	(494,075)	(287,348)	(690,054)
Cash flows	92,554	66,316	(3,139)	155,731
Net debt as at 30 June 2020	183,923	(427,759)	(290,487)	(534,323)
Net debt as at 1 July 2020	**183,923**	**(427,759)**	**(290,487)**	**(534,323)**
Cash flows	**20,764**	**(74,573)**	**(131,763)**	**(185,572)**
Net debt as at 30 June 2021	**204,687**	**(502,332)**	**(422,250)**	**(719,895)**
Police & Nurses Limited				
Net debt as at 1 July 2019	57,227	(395,413)	-	(338,186)
Cash flows	53,262	41,342	(59,986)	34,618
Net debt as at 30 June 2020	110,489	(354,071)	(59,986)	(303,568)
Net debt as at 1 July 2020	**110,489**	**(354,071)**	**(59,986)**	**(303,568)**
Cash flows	**8,269**	**(101,798)**	**(190,130)**	**(283,659)**
Net debt as at 30 June 2021	**118,758**	**(455,869)**	**(250,116)**	**(587,227)**

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021 $000	2020 $000	**2021 $000**	2020 $000
28 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	**661**	2,855	**661**	2,855
(b) Variable rental outgoings				
- not later than one year	**1,062**	1,066	**1,062**	1,066
- later than one year and not later than five years	**3,538**	3,613	**3,538**	3,613
- later than five years	**2,906**	3,585	**2,906**	3,585
Aggregate contractual obligation for future variable outgoings - not recognised as a liability	**7,506**	8,264	**7,506**	8,264

Significant leasing arrangements

As at 30 June 2021, the Bank has two significant leasing arrangements in place. The lease arrangement for the Perth head office at 556 Wellington Street, Perth, which expires 30 November 2029 and the lease arrangement for the Coffs Harbour Office at 35-61 Harbour Drive, Coffs Harbour which expires 23 September 2028. Each of these lease arrangements has one option for renewal for a five (5) year term.

Notes to the Financial Statements

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
29 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
Credit related commitments approved but undrawn loans and credit limits	**793,297**	572,531	**793,297**	572,531

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 2021).
- lodged a settlement security deposit of $21,400,000 under the Standard Terms and Conditions.
- lodged an overdraft security deposit of $3,000,000 under the Standard Terms and Conditions.

The Bank has entered the following financial arrangements with Indue:

- overdraft of $1,250,000 (unused as at 30 June 2021).
- lodged a settlement security deposit of $6,048,000 under the Standard Terms and Conditions.

The Bank has been granted secured term funding facilities (TFF) by the RBA for the amounts of $153,127,000 and a supplemental allowance of $101,396,000. The facilities are 3-year fixed rate facilities priced at 0.25% and 0.10% respectively, drawable up to the end of June 2021. As at 30 June 2021, the Bank has drawn down $189,788,000 (2020: $59,986,000).

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 $1,896,000 (2020: $1,341,000). Management and Directors are not aware of any claims, either current or pending, in relation to those guarantees.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$	$	**$**	$
30 KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**5,167,526**	4,348,881	**5,167,526**	4,348,881
Short-term employee benefits	**4,257,392**	4,055,069	**4,257,392**	4,055,069
Post-employment benefits	**298,853**	289,390	**298,853**	289,390
Other long-term benefits	**1,921**	4,422	**1,921**	4,422
Termination benefits	**609,360**	-	**609,360**	-
	5,167,526	4,348,881	**5,167,526**	4,348,881

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.

To encourage recruitment and retention of employees, the Bank offers staff discounts primarily in relation to home loans (up to certain limits), to which a discount to the market interest rate of up to 0.31% is offered. As employees of the Bank, key management personnel that are not Directors can access these discounts. The terms and conditions in respect of all loans to key management personnel and their related entities have not been breached. All key management personnel and their related entities have placed deposits with the Bank during the year under normal member terms and conditions.

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

Notes to the Financial Statements

Year Ended 30 June 2021	Police & Nurses Limited	
	2021	2020
30 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)	**$**	$
Loans outstanding to key management personnel and their related entities:		
Total loans	**6,741,692**	7,274,611
Of which, loans under normal member terms and conditions	**5,511,377**	5,298,314
Loan advances	**1,957,859**	1,853,595
Loan repayments	**2,090,385**	1,227,861
Interest on loans	**114,283**	134,277
Loans outstanding to key management personnel and their related entities:		
Total discounted loans	**1,230,315**	1,976,297
Of which, unsecured loan balance	**-**	(2,913)
Loan advances	**116,414**	299,000
Loan repayments	**180,053**	439,845
Interest on loans	**533**	43,526
Outstanding deposits held by key management personnel and their related entities:		
Balance of deposits	**1,432,712**	2,457,490
Additional deposits	**10,127,347**	8,172,415
Withdrawals	**10,159,980**	9,597,064
Interest on deposits	**3,047**	28,802

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
31 AUDITOR'S REMUNERATION				
(a) Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity - Grant Thornton				
- statutory financial reports audit services	**238**	-	**238**	-
- other assurance services	**74**	-	**44**	-
	312	-	**282**	-
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 - PricewaterhouseCoopers				
- statutory financial reports audit services	**-**	313	**-**	313
- other assurance services	**-**	182	**-**	126
	-	495	**-**	439
Other auditors				
- statutory financial reports audit services	**12**	11	**-**	-
	324	506	**282**	439
(b) Remuneration for other services:				
Auditor of the parent entity - Grant Thornton				
- taxation advice	**96**	-	**90**	-
Auditor of the parent entity - PricewaterhouseCoopers				
- taxation advice	**-**	120	**-**	114
- consulting	**-**	50	**-**	50
	96	170	**90**	164
Total auditor's remuneration	**420**	676	**372**	603

Notes to the Financial Statements

32 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 11 and note 15). Other balances with related entities are recorded in note 15.

The Bank transacted with its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in note 5.

Year Ended 30 June 2021	Police & Nurses Limited	
	2021 $000	2020 $000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the Group:		
Interest revenue	**21,298**	19,360
Interest expense	**32,882**	31,838
Securitisation service fee revenue	**7,046**	4,979
Dividend revenue	**300**	290
Other income	**540**	544
Aggregate amounts receivable from entities in the Group at balance sheet date	**95,467**	94,079
Aggregate amounts payable to entities in the Group at balance sheet date	**225,601**	317,513

33 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. 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 risk management framework, 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, 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 objective of maintaining a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

33 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk management - objectives and policies

Market risk exposure is the risk of the change in the fair value of future cash flows from banking activities because of changes in market rates, also called interest rate risk in the banking book (IRRBB). The Group's only market risk exposure is to changes in interest rates as it does not have a trading book and does not transact in foreign currencies, commodities or equity products. The Group uses derivatives to minimise exposures arising out of normal banking activities as part of its interest rate risk hedging strategy. The Group applies a 'Value at Risk' methodology (VaR) to estimate the market risk of its asset and liability portfolio. In addition, the bank use earnings at risk (EAR), interest rate sensitivity analysis (EVE) and PVbp measures to monitor market risk exposure.

The largest risk exposure is the repricing risk associated with the mismatch between the Group's fixed rate lending and fixed term deposit portfolios. The residual risk is managed through the utilisation of derivative contracts provided by third parties which swap the longer fixed rate exposures into short-term variable rate exposures.

The Group monitors and manages market risk exposures against limits on an ongoing basis via its Asset and Liability Committee (ALCO), which reports via the Risk Committee to the Board. 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.

Comprehensive processes for managing risk include:

- adherence to market risk policy;
- monthly market risk exposure review by ALCO;
- independent VaR, EVE, EAR and PVbp analysis;
- limits in relation to VaR and EVE market risk exposures and exposure limits in time buckets;
- independent duration and gap analysis; and
- independent hedging review and recommendations.

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

33 FINANCIAL RISK MANAGEMENT (continued)

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

Interest rate sensitivity analysis

The Group analyses interest rate sensitivity on an holistic basis using Earnings at Risk.

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 2021	Consolidated				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2021					
Cash and cash equivalents	**204,687**	**1,863**	**-**	**(406)**	**-**
Receivables due from other financial institutions	**1,243,940**	**10,140**	**-**	**(6,606)**	**-**
Loans and advances	**5,364,282**	**41,161**	**-**	**(41,161)**	**-**
Derivatives financial instruments	**(356)**	**-**	**2,247**	**-**	**(2,312)**
Members' deposits	**(5,472,468)**	**(40,257)**	**-**	**40,227**	**-**
Borrowings	**(924,582)**	**(5,837)**	**-**	**3,668**	**-**
Total increase/(decrease)	**415,503**	**7,070**	**2,247**	**(4,278)**	**(2,312)**
2020					
Cash and cash equivalents	183,923	1,694	-	(356)	-
Receivables due from other financial institutions	810,200	6,957	-	(6,487)	-
Loans and advances	5,073,555	43,857	-	(43,857)	-
Derivatives financial instruments	(345)	-	188	-	(189)
Members' deposits	(4,964,141)	(36,046)	-	36,016	-
Borrowings	(718,246)	(6,138)	-	4,341	-
Total increase/(decrease)	384,946	10,324	188	(10,343)	(189)

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2021	Police & Nurses Limited				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2021					
Cash and cash equivalents	**118,758**	**1,107**	**-**	**(217)**	**-**
Receivables due from other financial institutions	**1,243,940**	**10,140**	**-**	**(6,606)**	**-**
Loans and advances	**5,364,282**	**41,161**	**-**	**(41,161)**	**-**
Derivatives financial instruments	**(356)**	**-**	**2,247**	**-**	**(2,312)**
Members' deposits	**(5,474,466)**	**(40,257)**	**-**	**40,227**	**-**
Borrowings	**(705,985)**	**(3,983)**	**-**	**1,814**	**-**
Due to controlled entities	**(225,601)**	**(1,854)**	**-**	**1,854**	**-**
Total increase/(decrease)	**320,572**	**6,314**	**2,247**	**(4,089)**	**(2,312)**
2020					
Cash and cash equivalents	110,489	1,003	-	(183)	-
Receivables due from other financial institutions	810,200	6,957	-	(6,487)	-
Loans and advances	5,073,555	43,857	-	(43,857)	-
Derivatives financial instruments	(313)	(139)	188	141	(189)
Members' deposits	(4,966,115)	(36,046)	-	36,016	-
Borrowings	(414,057)	(3,481)	-	1,685	-
Due to controlled entities	(317,513)	(2,657)	-	2,657	-
Total increase/(decrease)	296,246	9,494	188	(10,028)	(189)

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Fair value of interest rate swaps				
Fair value estimation - interest rate swaps - asset	**391**	385	**391**	385
Fair value estimation - interest rate swaps - (liability)	**(747)**	(730)	**(747)**	(698)

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

Hedge accounting disclosures

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

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

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk management - objectives and policies

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

The Group monitors and manages its liquidity risk on an ongoing basis via its ALCO, which reports via the Risk Committee 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, short-term and long-term investments in debt securities.

Financing arrangements

Liquidity support is available in the form of a $3,000,000 (2020: $3,000,000) overdraft facility with Cuscal. This facility was undrawn as at 30 June 2021.

Liquidity support is available in the form of a $1,250,000 (2020: $1,250,000) overdraft facility with Indue. This facility was undrawn as at 30 June 2021.

Also maintained by the Group are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of $75,000,000 (2020: $125,000,000), of which $28,881,000 (2020: $51,312,000) was available at 30 June 2021; and
- a self-securitisation facility under the Pinnacle Series Trust 2014-SST of $1,650,000,000 (2020: $1,650,000,000). The A Notes (AAA rated) of $1,465,000,000 (2020: $1,465,000,000) are available as a source of contingent liquidity via repurchase agreements with the RBA if required in the event of a liquidity stress scenario. The A Notes support drawdown of the RBA's TFF, and a portion of the A Notes are held as encumbered assets (note 15).

The Group and the Bank had access to the following undrawn borrowing facilities as at 30 June 2021:

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$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

33 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 2021 — **Consolidated**

	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						
2021						
Borrowings	**1,344**	**388,948**	**112,039**	**285,291**	**136,960**	**924,582**
Members' deposits	**2,969,330**	**1,479,405**	**916,071**	**107,662**	**-**	**5,472,468**
Derivative financial instruments	**-**	**38**	**131**	**578**	**-**	**747**
	2,970,674	**1,868,391**	**1,028,241**	**393,531**	**136,960**	**6,397,797**
2020						
Borrowings	-	283,418	144,341	102,418	188,069	718,246
Members' deposits	1,696,158	2,104,524	1,038,638	124,821	-	4,964,141
Derivative financial instruments	-	51	48	631	-	730
	1,696,158	2,387,993	1,183,027	227,870	188,069	5,683,117

Year Ended 30 June 2021 — **Police & Nurses Limited**

	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						
2021						
Borrowings	**1,000**	**388,949**	**65,920**	**250,116**	**-**	**705,985**
Members' deposits	**2,971,327**	**1,479,406**	**916,071**	**107,662**	**-**	**5,474,466**
Derivative financial instruments	**-**	**38**	**131**	**578**	**-**	**747**
	2,972,327	**1,868,393**	**982,122**	**358,356**	**-**	**6,181,198**
2020						
Borrowings	-	283,418	70,653	59,986	-	414,057
Members' deposits	1,698,132	2,104,524	1,038,638	124,821	-	4,966,115
Derivative financial instruments	-	23	45	630	-	698
	1,698,132	2,387,965	1,109,336	185,437	-	5,380,870

Notes to the Financial Statements

33 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 Risk Appetite Statement 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 risk management framework and has an appropriate risk structure to ensure robust management of credit risk.

Management and control of credit risk is centralised through a Credit Committee which meets monthly and reports to the Board, the Board Risk Committee and the Executive Committee. Lending activities to members cover both secured and unsecured retail lending and secured commercial lending. The Group maintains policies, credit decision-making systems and processes to ensure appropriate analysis is undertaken to mitigate credit risk.

To determine credit quality, the Group has implemented a credit risk grading system. The credit risk grading system highlights changes in the Group's credit risk profile and trends in asset quality. Retail loans with similar risk characteristics are managed on a portfolio basis. In relation to the home loan portfolio, credit quality is aligned to APRA Standard APS 112 Standardised approach to Credit Risk. Within the commercial loan portfolio each exposure greater than $500,000 is graded on an individual basis. All credit exposures are regularly monitored to ensure that any deterioration in credit quality is identified and appropriately managed. Where recoverability is in doubt, loans are individually managed, and specific provisions are raised.

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

There have been no material changes to the Group's credit risk policies from the prior year other than ensuring the Group is operating in alignment with industry standards and regulator expectations.

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

ECL model

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

Model methodology

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

ECL = PD X LGD X 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

33 FINANCIAL RISK MANAGEMENT (continued)

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

Segmentation

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

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

Staging

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

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

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

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

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

Probability of Default

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

Loss Given Default

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

Exposure at Default

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

Lifetime

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

Macroeconomic Overlay

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

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Data and model recalibration

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

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

Internal credit grades

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

- CRG1 – Low Risk

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

  - Qualify for a risk weight of 35%.

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

- CRG2 – Sound Risk

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

  - Qualify for a risk weight of 50%.

- CRG3 – Stable Risk

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

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

- CRG4 – Moderate Risk

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

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

- CRG5 – Acceptable Risk

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

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

- CRG6 – Managed

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

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

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2021 — **Consolidated**

Internal rating	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Specific provision Lifetime ECL $000	Total $000
Low (Internal risk grade 1)					
Cash and cash equivalents	204,687	-	-	-	204,687
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Loans and advances	4,234,465	28,109	10,259	4	4,272,837
Undrawn credit commitments	791,401	-	-	-	791,401
Total Low	**6,475,119**	**28,109**	**10,259**	**4**	**6,513,491**
Sound (Internal risk grade 2)					
Loans and advances	494,428	4,314	1,017	-	499,759
Total Sound	**494,428**	**4,314**	**1,017**	**-**	**499,759**
Stable (Internal risk grade 3)					
Loans and advances	224,839	737	1,200	-	226,776
Total Stable	**224,839**	**737**	**1,200**	**-**	**226,776**
Moderate (Internal risk grade 4)					
Loans and advances	38,431	83	-	-	38,514
Total Moderate	**38,431**	**83**	**-**	**-**	**38,514**
Acceptable (Internal risk grade 5)					
Loans and advances	315,604	298	-	1,622	317,523
Total Acceptable	**315,604**	**298**	**-**	**1,622**	**317,523**
Managed (Internal risk grade 6)					
Other financial assets held at AC	-	-	-	30,753	30,753
Loans and advances	9,161	636	2,605	5,634	18,035
Total Managed	**9,161**	**636**	**2,605**	**36,387**	**48,788**
Total	**7,557,582**	**34,177**	**15,081**	**38,013**	**7,644,852**
Financial assets by ECL stage					
Cash and cash equivalents	204,687	-	-	-	204,687
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Other financial assets held at AC	-	-	-	30,753	30,753
Loans and advances	5,316,928	34,177	15,081	7,260	5,373,446
Off-balance Sheet					
Undrawn credit commitments	791,401	-	-	-	791,401
Total financial instruments by ECL stage	**7,557,582**	**34,177**	**15,081**	**38,013**	**7,644,853**

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2020	Consolidated				
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
Internal rating	**$000**	**$000**	**$000**	**$000**	**$000**
Low (Internal risk grade 1)					
Cash and cash equivalents	183,923	-	-	-	183,923
Receivables due from financial institutions	810,917	-	-	-	810,917
Loans and advances	4,009,150	19,980	17,916	6,864	4,053,910
Undrawn credit commitments	572,531	-	-	-	572,531
Total Low	**5,576,521**	**19,980**	**17,916**	**6,864**	**5,621,281**
Sound (Internal risk grade 2)					
Loans and advances	508,182	1,338	2,749	-	512,269
Total Sound	**508,182**	**1,338**	**2,749**	**-**	**512,269**
Stable (Internal risk grade 3)					
Loans and advances	207,950	1,139	307	2,740	212,136
Total Stable	**207,950**	**1,139**	**307**	**2,740**	**212,136**
Moderate (Internal risk grade 4)					
Loans and advances	255,822	1,418	4	941	258,185
Total Moderate	**255,822**	**1,418**	**4**	**941**	**258,185**
Acceptable (Internal risk grade 5)					
Loans and advances	49,046	474	-	2,477	51,997
Total Acceptable	**49,046**	**474**	**-**	**2,477**	**51,997**
Managed (Internal risk grade 6)					
Other financial assets held at AC	-	-	-	28,461	28,461
Loans and advances	3,996	227	-	-	4,223
Total Managed	**3,996**	**227**	**-**	**28,461**	**32,684**
Total	**6,601,517**	**24,576**	**20,975**	**41,482**	**6,688,552**
Financial assets by ECL stage					
Cash and cash equivalents	183,923	-	-	-	183,923
Receivables due from financial institutions	810,917	-	-	-	810,917
Other financial assets held at AC	-	-	-	28,461	28,461
Loans and advances	5,034,146	24,576	20,976	13,022	5,092,720
Off-balance Sheet					
Undrawn credit commitments	572,531	-	-	-	572,531
Total financial instruments by ECL stage	**6,601,517**	**24,576**	**20,976**	**41,483**	**6,688,552**

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2021 — **Police & Nurses Limited**

Internal rating	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Specific provision Lifetime ECL $000	Total $000
Low (Internal risk grade 1)					
Cash and cash equivalents	118,758	-	-	-	118,758
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Other financial assets held at AC	2,479	-	-	-	2,479
Loans and advances	4,234,465	28,109	10,259	4	4,272,837
Due from controlled entities	76,275	-	-	-	76,275
Undrawn credit commitments	791,401	-	-	-	791,401
Total Low	**6,467,944**	**28,109**	**10,259**	**4**	**6,506,316**
Sound (Internal risk grade 2)					
Loans and advances	494,428	4,314	1,017	-	499,759
Total Sound	**494,428**	**4,314**	**1,017**	**-**	**499,759**
Stable (Internal risk grade 3)					
Loans and advances	224,839	737	1,200	-	226,776
Total Stable	**224,839**	**737**	**1,200**	**-**	**226,776**
Moderate (Internal risk grade 4)					
Loans and advances	38,431	83	-	-	38,514
Total Moderate	**38,431**	**83**	**-**	**-**	**38,514**
Acceptable (Internal risk grade 5)					
Loans and advances	315,604	298	-	1,622	317,524
Total Acceptable	**315,604**	**298**	**-**	**1,622**	**317,524**
Managed (Internal risk grade 6)					
Loans and advances	9,161	636	2,605	5,634	18,035
Due from controlled entities	-	-	-	28,938	28,938
Total Managed	**9,161**	**636**	**2,605**	**34,572**	**46,973**
Total	**7,550,407**	**34,177**	**15,081**	**36,198**	**7,635,863**
Financial assets by ECL stage					
Cash and cash equivalents	118,758	-	-	-	118,758
Receivables due from financial institutions	1,244,566	-	-	-	1,244,566
Other financial assets held at AC	2,479	-	-	-	2,479
Loans and advances	5,316,928	34,177	15,082	7,261	5,373,447
Due from controlled entities	76,275	-	-	28,938	105,213
Off-balance Sheet					
Undrawn credit commitments	791,401	-	-	-	791,401
Total financial instruments by ECL stage	**7,550,407**	**34,177**	**15,082**	**36,199**	**7,635,864**

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2020	Police & Nurses Limited				
	Stage 1 Collective provision 12-months ECL	Stage 2 Collective provision Lifetime ECL not credit impaired	Stage 3 Collective provision Lifetime ECL credit impaired	Specific provision Lifetime ECL	Total
Internal rating	**$000**	**$000**	**$000**	**$000**	**$000**
Low (Internal risk grade 1)					
Cash and cash equivalents	110,489	-	-	-	110,489
Receivables due from financial institutions	810,917	-	-	-	810,917
Other financial assets held at AC	179	-	-	-	179
Loans and advances	4,009,150	19,980	17,916	6,864	4,053,910
Due from controlled entities	70,305	-	-	-	70,305
Undrawn credit commitments	572,531	-	-	-	572,531
Total Low	**5,573,571**	**19,980**	**17,916**	**6,864**	**5,618,331**
Sound (Internal risk grade 2)					
Loans and advances	508,182	1,338	2,749	-	512,269
Total Sound	**508,182**	**1,338**	**2,749**	**-**	**512,269**
Stable (Internal risk grade 3)					
Loans and advances	207,950	1,139	307	2,740	212,136
Total Stable	**207,950**	**1,139**	**307**	**2,740**	**212,136**
Moderate (Internal risk grade 4)					
Loans and advances	255,822	1,418	4	941	258,185
Total Moderate	**255,822**	**1,418**	**4**	**941**	**258,185**
Acceptable (Internal risk grade 5)					
Loans and advances	49,046	474	-	2,477	51,997
Total Acceptable	**49,046**	**474**	**-**	**2,477**	**51,997**
Managed (Internal risk grade 6)					
Loans and advances	3,996	227	-	-	4,223
Due from controlled entities	-	-	-	30,520	30,520
Total Managed	**3,996**	**227**	**-**	**30,520**	**34,743**
Total	**6,598,567**	**24,576**	**20,975**	**43,541**	**6,687,661**
Financial assets by ECL stage					
Cash and cash equivalents	110,489	-	-	-	110,489
Receivables due from financial institutions	810,917	-	-	-	810,917
Other financial assets held at AC	179	-	-	-	179
Loans and advances	5,034,146	24,576	20,976	13,022	5,092,720
Due from controlled entities	70,305	-	-	30,520	100,825
Off-balance Sheet					
Undrawn credit commitments	572,531	-	-	-	572,531
Total financial instruments by ECL stage	**6,598,567**	**24,576**	**20,976**	**43,542**	**6,687,661**

Notes to the Financial Statements

33 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 2021 — **Consolidated**

	Note	Gross amount $000	ECL Provision $000	Carrying amount $000	Collateral held Other $000	Collateral held Property $000
Maximum credit exposure						
Cash and cash equivalents	6	**204,687**	**-**	**204,687**	**-**	**-**
Receivables due from financial institutions	7	**1,244,566**	**(626)**	**1,243,940**	**-**	**-**
Other financial assets held at AC	10	**30,753**	**(9,746)**	**21,007**	**-**	**19,461**
Loans and advances (i)	12	**5,373,447**	**(7,994)**	**5,365,453**	**77,109**	**13,219,846**
- Home loans		4,954,898	(5,091)	4,949,807	2,596	11,680,818
- Secured overdrafts		58,134	(19)	58,115	1,775	511,367
- Personal loans		38,658	(229)	38,429	43,353	-
- Overdraft & credit cards		42,858	(476)	42,382	-	31,466
- Commercial & property finance		278,899	(2,179)	276,720	29,385	996,195
Total		**6,853,453**	**(18,366)**	**6,835,087**	**77,109**	**13,239,307**
Off-Balance Sheet						
Undrawn credit commitments	29	**793,297**	**(1,167)**	**792,131**	**-**	**-**
Maximum credit exposure		**7,646,750**	**(19,533)**	**7,627,218**	**77,109**	**13,239,307**

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

Year Ended 30 June 2020 — **Consolidated**

	Note	Gross amount $000	ECL Provision $000	Carrying amount $000	Collateral held Other $000	Collateral held Property $000
Maximum credit exposure						
Cash and cash equivalents	6	183,923	-	183,923	-	-
Receivables due from financial institutions	7	810,917	(717)	810,200	-	-
Other financial assets held at AC	10	28,461	(6,746)	21,715	-	20,807
Loans and advances (i)	12	5,092,720	(16,130)	5,076,589	88,197	9,894,434
- Home loans		4,745,850	(7,817)	4,738,033	9,597	8,770,932
- Secured overdrafts		28,748	(248)	28,500	143	367,936
- Personal loans		47,039	(1,949)	45,090	47,901	-
- Overdraft & credit cards		43,100	(3,021)	40,079	75	16,817
- Commercial & property finance		227,983	(3,095)	224,888	30,481	738,749
Total		6,116,021	(23,593)	6,092,427	88,197	9,915,241
Off-Balance Sheet						
Undrawn credit commitments	29	572,531	(3,035)	569,496	-	-
Maximum credit exposure		6,688,552	(26,628)	6,661,923	88,197	9,915,241

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

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2021		Police & Nurses Limited				
	Note	Gross amount $000	ECL Provision $000	Carrying amount $000	Collateral held Other $000	Collateral held Property $000
Maximum credit exposure						
Cash and cash equivalents	6	**118,758**	**-**	**118,758**	**-**	**-**
Receivables due from financial institutions	7	**1,244,566**	**(626)**	**1,243,940**	**-**	**-**
Other financial assets held at AC	10	**2,479**	**-**	**2,479**	**-**	**-**
Loans and advances (i)	12	**5,373,447**	**(7,994)**	**5,365,453**	**77,109**	**13,219,846**
- Home loans		4,954,898	(5,091)	4,949,807	2,596	11,680,818
- Secured overdrafts		58,134	(19)	58,115	1,775	511,367
- Personal loans		38,658	(229)	38,429	43,353	-
- Overdraft & credit cards		42,858	(476)	42,382	-	31,466
- Commercial & property finance		278,899	(2,179)	276,720	29,385	996,195
Due from controlled entities	15	**105,213**	**(9,746)**	**95,467**	**-**	**-**
Total		**6,844,463**	**(18,366)**	**6,826,097**	**77,109**	**13,219,846**
Off-Balance Sheet						
Undrawn credit commitments	29	**793,297**	**(1,167)**	**792,131**	**-**	**-**
Maximum credit exposure		**7,637,760**	**(19,533)**	**7,618,228**	**77,109**	**13,219,846**

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

Year Ended 30 June 2020		Police & Nurses Limited				
	Note	Gross amount $000	ECL Provision $000	Carrying amount $000	Collateral held Other $000	Collateral held Property $000
Maximum credit exposure						
Cash and cash equivalents	6	110,489	-	110,489	-	-
Receivables due from financial institutions	7	810,917	(717)	810,200	-	-
Other financial assets held at AC	10	179	-	179	-	-
Loans and advances (i)	12	5,092,720	(16,130)	5,076,589	88,197	9,894,434
- Home loans		4,745,850	(7,817)	4,738,033	9,597	8,770,932
- Secured overdrafts		28,748	(248)	28,500	143	367,936
- Personal loans		47,039	(1,949)	45,090	47,901	-
- Overdraft & credit cards		43,100	(3,021)	40,078	75	16,817
- Commercial & property finance		227,983	(3,095)	224,888	30,481	738,749
Due from controlled entities	15	100,825	(6,746)	94,079	-	-
Total		6,115,130	(23,593)	6,091,536	88,197	9,894,434
Off-Balance Sheet						
Undrawn credit commitments	29	572,531	(3,035)	569,496	-	-
Maximum credit exposure		6,687,660	(26,628)	6,661,032	88,197	9,894,434

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

(d) Climate related risk

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

Notes to the Financial Statements

33 FINANCIAL RISK MANAGEMENT (continued)

(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 and operational risk events. Capital growth enables balance sheet growth and healthy levels of capital maintain the confidence of depositors and creditors.

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

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

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
Capital adequacy ratio as at 30 June	**14.10%**	14.84%	**14.08%**	14.84%

34 DISCONTINUED OPERATIONS

(a) Description

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

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

It is the intention to deregister PNFP.

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

Notes to the Financial Statements

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the 12 months ended 30 June 2021 (2021 column) and the year ended 30 June 2020.

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Revenue	**2,751**	2,927	**893**	963
Expenses	**(2,441)**	(1,913)	**-**	-
Profit/(loss) before income tax	**310**	1,014	**893**	963
Income tax (expense)/benefit	**77**	(122)	**(268)**	(289)
Profit/(loss) after income tax of discontinued operation	**387**	892	**625**	674
Gain on sale of the Assets after income tax	**1,942**	-	**-**	-
Profit/(loss) from discontinued operation	**2,329**	892	**625**	674
Profit/(loss) from Discontinued Operations - attributable to members	**1,789**	871	**625**	674
Profit/(loss) from Discontinued Operations - attributable to non-controlling interests	**540**	21	**-**	-
Net Cash inflow(outflow) from operating activities	**447**	580	**893**	963
Net Cash inflow/(outflow) from investing activities	**17**	-	**-**	-
Net cash inflow/ (outflow) from financing activities	**-**	-	**-**	-
Net increase/(decrease) in cash generated by the disposal group	**465**	(580)	**893**	963

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

Year Ended 30 June 2021	Consolidated		Police & Nurses Limited	
	2021	2020	**2021**	2020
	$000	$000	**$000**	$000
Consideration received or receivable:				
Current Receivable less employee provisions deducted from sale	**1,967**	-	**-**	-
Deferred receivable	**924**	-	**-**	-
GST payable	**(280)**	-	**-**	-
Total Disposal consideration	**2,611**	-	**-**	-
Carrying amount of net assets/(liabilities) sold	**(163)**	-	**-**	-
Gain on sale before income tax	**2,774**	-	**-**	-
Income Tax expense on gain (30%)	**(832)**	-	**-**	-
Gain on sale after income tax	**1,942**	-	**-**	-
Gain on Sale after income tax -attributable to members	**1,263**	-	**-**	-
Gain on Sale after income tax -attributable to non-controlling interests	**442**	-	**-**	-

Notes to the Financial Statements

34 DISCONTINUED OPERATIONS (continued)

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

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

Year Ended 30 June 2021

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

35 BUSINESS COMBINATION

During the financial year 2020, Police and Nurses Limited merged with Bananacoast Community Credit Union Ltd, a Credit Union based in Coffs Harbour - NSW, pursuant to the Financial Sector (Business Transfer and Group Reconstruction) Act of 1999. Regulatory approval was obtained from APRA for the merger effective from 1 November 2019. The primary reason for the merger was to strengthen the customer owned financial services model in Western Australia and provide a genuine alternative to the major banks for those in its communities.

In an acquisition, the assets acquired and liabilities assumed are generally measured at their acquisitiondate fair value. The critical assumptions used in the calculation of fair value are outlined below:

Rates to discount cash flows of the various fixed rate products were sourced from the Bank's rates on offer to customers on a like for like basis as at 31 October 2019 with the following exception:

(i) For commercial loans the fair value was deemed to be equal to its carrying value because an observable rate was not readily available

	Fair Value Amount
	$000
The consideration acquired is as follows:	
Redeemable share reserve	762
Contributed equity	150,719
Acquisition-date-fair-value of acquirer's equity interest	**151,481**

Notes to the Financial Statements

35 BUSINESS COMBINATION (continued)

The amounts recognised as of the acquisition date (1 November 2019) for each major class of assets acquired and liabilities assumed, are as follows:

	Carrying Value	Fair Value on Merger
	$000	**$000**
Assets		
Cash and cash equivalents	**59,873**	**59,873**
Receivables due from other financial institutions	**255,638**	**255,326**
Financial assets held at FVOCI	**1,816**	**2,265**
Other assets	**983**	**983**
Other financial assets held at AC	**6,214**	**6,214**
Loans and advances	**1,387,861**	**1,391,708**
Property plant and equipment	**14,166**	**13,367**
Right-of-use assets	**15,982**	**16,261**
Intangible assets	**681**	**-**
Deferred tax assets	**2,803**	**2,619**
Current tax assets	**2,304**	**2,304**
Total assets	**1,748,321**	**1,750,920**
Liabilities		
Members' deposits	**1,563,919**	**1,565,617**
Other payable	**14,532**	**14,832**
Lease liabilities	**16,089**	**16,261**
Provisions	**2,729**	**2,729**
Total liabilities	**1,597,269**	**1,599,439**
Fair value of identifiable net assets attributable to Bananacoast Community Credit Union Ltd	**151,052**	**151,481**

(a) Acquired Receivables

The fair value of the acquired trade debtors at date of merger is $983,000 with no loss allowance recognised on acquisition.

(b) Revenue and Profit Contribution

The acquired business contributed $29,000,000 in net interest income and $1,900,000 net profit before tax to the Group for the period from 1 November 2019 to 30 June 2020. If the acquisition had occurred on 1 July 2019 it would have contributed $46,000,000 to net interest income and $2,000,000 net profit before tax to the Group.

(c) Acquisition Costs

Acquisition related costs of $1,274,000 are included in general and administrative expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

(d) Contingent Assets and Liabilities

There were no contingent assets or liabilities acquired as a result of the merger.

(e) Inter-company Balances

There were no inter-company balances between Banana Coast Community Credit Union and Police and Nurses Ltd on the date of the merger.

Notes to the Financial Statements

35 BUSINESS COMBINATION (continued)

(f) Purchase consideration

	$000
Inflow of cash due to Acquisition	
Cash consideration paid	-
Balances acquired - cash	59,873
Bank overdraft	-
Net inflow of cash - investing activities	**59,873**

36 EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no material subsequent events identified.

Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 20 to 83 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 2021 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 the Bank will be able to pay their debts as and when they become due and payable.

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

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

S C TARGETT
Director

T J HUNT
Director

Date: 30 August 2021
PERTH, WA

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Independent Auditor's Report

To the Members of Police & Nurses Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Police & Nurses Ltd and its controlled entities ("the Bank"), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Bank's financial position as at 30 June 2021 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.

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 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

The Directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

Darren Scammell
Partner – Audit & Assurance

Melbourne, 30 August 2021

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