Police & Nurses Limited

Annual Report 2020

Directory

Directors

Paul Marshall Gabb (Chair)

Stephen Craig Targett (Deputy Chair)
(appointed 1 November 2019)

Stephen John Melville (Deputy Chair)
(retired 23 October 2019)

Eric Laurence Smith
(retired 23 October 2019)

Kellie Louise Properjohn

Edwin Roy Bradley

Julie Ann Elliott

Andrew Douglas Hadley

Trevor Joel Hunt

Alan Craig Philp

Louise Anne Clarke
(appointed 1 November 2019)

Gary Colin Humphreys
(appointed 1 November 2019)

Chief Executive Officer

Andrew Douglas Hadley

Company Secretaries

Jacqueline Anne Donald

Jennifer Anne Handz

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

PricewaterhouseCoopers
Brookfield Place
125 St Georges Terrace
Perth 6000
Western Australia

Internal Auditors

Ernst & Young
11 Mounts Bay Road
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), incorporating the merger with Bananacoast Community Credit Union Limited (BCCU Ltd). 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 16 to 20, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 31 August 2020. 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 2020 can be found here: **https://www.pnbank.com.au/about/corporate-information/corporate-details/**

Glossary of abbreviations and defined terms

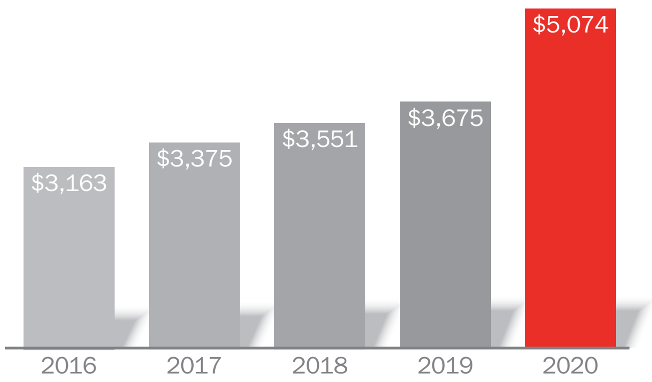
ADI	Authorised Deposit-taking Institution
Bank, Company or PNL	Police & Nurses Limited ABN 69 087 651 876 as an individual entity and holder of the ADI licence
bcu	the division of the Bank carried on under the trading name 'bcu'
BCCU Ltd	Bananacoast Community Credit Union Limited ABN 50 087 649 750
Group	the Company and its subsidiaries
P&N	the division of the Bank carried on under the trading name 'P&N Bank'

Highlights at a glance

Group loans under management

grew by 38%

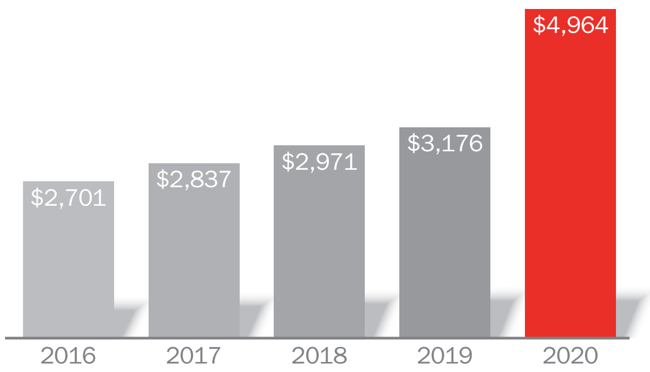
2019	2020
$3,675m	**$5,074m**



Group total deposit balance

grew by 56%

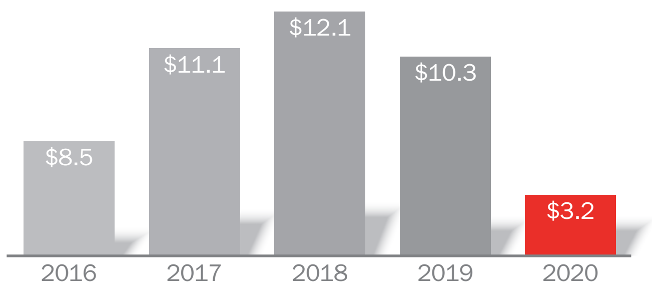
2019	2020
$3,176m	**$4,964m**



Group net profit after tax (NPAT)

down to $3.2m

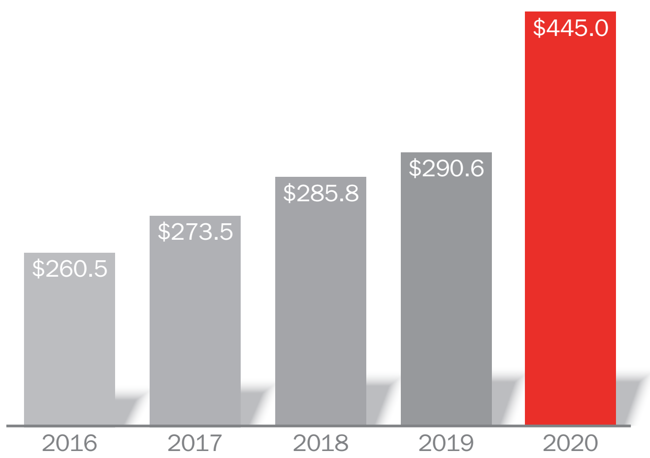
2019	2020
$10.3m	**$3.2m**



Group reserves

increased to $445m

2019	2020
$290.6m	**$445.0m**



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

Board Members

Paul Marshall Gabb
Chair

Stephen Craig Targett
Deputy Chair (appointed Nov 2019)

Edwin Roy Bradley
Director

Louise Anne Clarke
Director (appointed Nov 2019)

Julie Ann Elliott
Director

Andrew Douglas Hadley
Director

Gary Colin Humphreys
Director (appointed Nov 2019)

Trevor Joel Hunt
Director

Alan Craig Philp
Director

Kellie Louise Properjohn
Director

Chair Report

I have pleasure in presenting the 2020 Annual Report for Police & Nurses Limited, my last, as I retire at this year's Annual General Meeting after seven years in the role.

It has been a year like no other in which we have navigated multiple crises including the COVID-19 global pandemic, devastating bushfires and floods, a third-party data breach and through it all, I take pride in delivering my Report which outlines continued member growth, sound financial management under difficult economic conditions, strong governance and in particular, the strategically important merger with BCCU Ltd.

Our recently formed Board has overseen the development of a new five-year strategy which will see us focus on four key themes – Grow, Deepen, Diversify and Transform, to ensure that we continue to deliver on our purpose; to enrich the lives of our members and their communities.

The impact of COVID-19 has been profound and significant uncertainty remains. Our thoughts go out to all those who have been affected socially and economically and our thanks go to our frontline workers who continue to put the needs of others above their own.

Our response to the pandemic has been threefold. We continue to support our members disadvantaged by the economic fallout of the crisis through lending repayment relief, we have focused on the safety of our staff and members and we have taken a cautious and conservative approach to the potential future financial impacts with a $10.7m provision for what may lie ahead.

The merger – 1 November 2019

With an aligned vision and strong member focus, the merger between PNL and BCCU Ltd was unanimously supported by both Boards. After a rigorous due diligence process, the merger proposal was put to members on both sides of the country and received overwhelming endorsement.

Governed by the new Board, which includes Directors from the former BCCU Ltd, your customer-owned bank now has an asset base in excess of $6 billion and is represented by two unique, regional banking brands, each operating under the PNL Banking license.

With our multi-brand model, the respective brands retain their heritage, identity and commitment to members and local communities, and are supported by a shared Group services function that leverages the size and scale of our merged entity.

We now serve the interests of more than 156,000 members across Australia, with 550 staff dedicated to delivering superior service and a contemporary retail and business banking experience to members of all ages, and from all walks of life.

Our five-year Strategic Plan

Following the merger, we turned our attention to the development of our new five-year strategic plan which was approved by the Board earlier this year.

The ever-increasing cost of regulation, digital banking expectations, the evolution of non-traditional competitors and the need to maintain safe and secure banking channels, informs our need to amass further size and scale. Our transformative new plan addresses these factors, ensures we can optimise opportunities and prepares us for the inevitable challenges that the future of banking will bring.

Further consolidation of the customer-owned banking sector is inevitable, and our unique multi-brand operating model is likely to appeal to other likeminded institutions. Our new strategy builds on our solid foundations, will result in growth and transformation and will reinforce our position as one of the leading customer-owned banks in Australia.

Chair Report

Our response to COVID-19

I would like to acknowledge the personal and financial impacts that the COVID-19 global pandemic has had on our members, our people, and our nation as a whole. I can assure you that our entire organisation continues to do all we can to support those members who need our assistance.

Lending relief packages were put in place at the outset of the pandemic, delivering much needed respite from regular loan repayments for more than 1,000 of our members who experienced unemployment or financial difficulty. Pleasingly, we are seeing many members who initially took advantage of the relief packages returning to their regular repayments, and our people remain in close contact with those remaining members to assist wherever possible.

Our frontline teams also checked in personally with a significant number of our members who were considered vulnerable, to ensure that they felt supported. And speaking of our people, the Board are immensely proud of the way they continue to uphold our values and work together to support our members and each other, through these challenging times.

Accounting standards require us to provide for future expected credit losses, even though they have yet to be realised. As a result of this, together with one-off merger costs, this year's profit result is down on the previous year however, your Board is of the view it is appropriate to be cautious in the current environment and we are willing and able to support our members through this difficult time.

The Board

The PNL Board comprises six member-elected Directors who work alongside three Board appointed Directors and the CEO.

As indicated earlier, three former BCCU Ltd Directors, Stephen Targett, Louise Clarke and Gary Humphreys, joined the Board upon the merger in November 2019 and we welcome their collective knowledge and experience.

Around that time, we farewelled Steve Melville and Eric Smith, both long serving and dedicated Directors of the Board. Eric was the former Chair for a great many years and Steve held the position of Deputy Chair for the past six years up until his departure. At the last AGM, I passed on our organisation's thanks and my personal appreciation to both Steve and Eric for their unwavering commitment to PNL and the assistance they had each rendered me throughout my tenure.

One of the first important post-merger governance activities undertaken by our newly formed Board was to conduct a Board meeting in Coffs Harbour early in 2020, where we also met with a number of local community stakeholders and founding members. With the AGM being held in Perth, I would like to assure our NSW and Queensland based members that the Board has every intention of hosting more face to face events on the east coast once the uncertainties of COVID-19 are behind us.

In light of my imminent resignation, your Board has voted current Deputy Chair, Steve Targett as the Chair-Elect. Steve is a highly credentialled financial services executive and non-executive director who brings a wealth of experience to this role alongside a strong skillset in governance, strategy, transformation and mergers. Under Steve's leadership, I believe that our P&N Bank and bcu brands, our members and our people will be in safe and capable hands.

Final words from the Chair

I am very proud to have led the Board through such a significant period of transformation and personally thank every Director who has served alongside me throughout my tenure.

To our CEO, Andrew Hadley, I extend my thanks for the support and collaboration we have shared over the past six years. Andrew has a team of strong leaders who I am confident will steer our organisation through the necessary strategic transformation. I sincerely wish to thank him, his executive team, the management and staff for their unwavering commitment to me personally, to our organisation and to our members.

And my final acknowledgement goes to you, our members. Your ongoing trust, loyalty and support is essential to the success of our organisation.

P.M. Gabb

Paul M Gabb
Chair

Executive Team

Andrew Hadley
Chief Executive Officer

Patrick Jodas
Chief Financial Officer

Anna Pearce
General Manager P&N Bank

Michael Ribbens
General Manager bcu

Lindsay Johnston
General Manager
Specialist Lending

Brendon Comrie
Chief Risk Officer

Mark Smith
General Manager People & Culture

Jill Marks
Chief Operating Officer

Jennifer Handz
General Counsel and
Company Secretary

Jackie Donald
General Counsel and
Company Secretary

Erik Fenna
Chief Information Officer

Kim Radalj
General Manager
Strategy & Corporate
Development

CEO Report

2020 has been both a challenging and defining year for the Group.

Ongoing geo-political uncertainty, tough economic conditions and the global ravages of the COVID-19 pandemic have certainly impacted our performance. Anticipated one-off merger costs, together with prudent credit provisioning to withstand the lingering COVID-19 economic impacts, have been significant drivers of this year's net profit result. With these one-off factors behind us, and with a diligent focus on costs, we will see profit bounce back strongly in the year ahead.

The Group continues to grapple with increased levels of unemployment, record low interest rates, intense competition and waning consumer confidence levels. Setting interest rates is especially difficult in the current environment and we continue to try and balance the needs of depositors and borrowers in our decision making. We will maintain our focus on attracting more Australians to the benefits of customer-owned banking, with compelling products and services relevant to the needs of members across our regions.

Our new strategy relies on data and analytics to grow and deepen the relationships we have with our existing loyal members. We will leverage the knowledge and experience of our bcu staff to diversify and expand our small to medium enterprise business banking offering across all three states, and we will transform our ways of working and enterprise architecture to position us for success.

Group operational highlights

Stronger together

Without doubt, our merger has been both a strategic and operational highlight delivering a successful end point to our previous five-year strategy. The benefits of the merger and the synergies continue to be realised and we remain on track to finalise the alignment of our culture, workplaces, systems and processes.

Recently, we announced the establishment and launch of our new bcu and P&N Bank Brand Advisory Councils, honouring the commitment we made to members as part of the merger. These Advisory Councils will offer their experience, unique skill set, networks and standing within the community to help leverage brand strategic opportunities, optimise the prosperity, reach and profile of our brands in their regions and positively influence and advocate for both bcu and P&N Bank and our members.

And soon, one of the key merger implementation deliverables will be completed when we align the banking systems of bcu with P&N in late 2020. This is a highly complex exercise and while we have successfully mitigated as much of the change impact as we reasonably could, I do acknowledge there will be some unavoidable level of member disruption. Our bcu team has been expanded in anticipation and trained up to assist members through the transition.

Once the systems have been aligned, our east coast and west coast teams will finally enjoy a fully integrated digital workplace, unlocking greater opportunities for collaboration and efficiency that will further enhance our overall service offering.

Operational response to COVID-19

With fires and floods impacting our east coast members and staff in late 2019, there was little respite before the COVID-19 pandemic prompted our entire Group to come together as one in response to the crisis. With Board support and oversight, our Crisis Management Team worked for several months to manage and mitigate the impacts on our people and our members.

The majority of our branches and stores continued to serve members throughout the crisis, while a small number of premises with lower foot traffic were temporarily closed and staff redeployed to support our more disadvantaged members. With negligible disruption to our operations, back-office teams across the country were safely and seamlessly deployed to work from home, taking advantage of new digital workplace technology that had been implemented a year earlier.

As is the case with many organisations, COVID-19 has accelerated the advent of a new norm in terms of contemporary work practices and our staff have overwhelmingly embraced this new flexibility. With the pandemic persisting, we continue to make available a combination of head office and regional office locations alongside "work from home" flexibility for our back-office teams to ensure our people are safe and our office environments are COVID-19 compliant.

Our people

Our Group's greatest asset is our people. They are one of the primary reasons our brands enjoy such high member advocacy and loyalty.

Across the country, our people embraced being part of a larger like-minded Group with our values, behaviours and attitudes a key component of our implementation program.

Our collaborative culture and ways of working have been welcomed by our east coast teams, evidenced by strong engagement survey results, and our workforce is now working effectively, either physically or remotely, across multiple states.

Group financial results

In our first year reporting as a merged entity, PNL delivered a net profit after tax of $3.2 million, down 69% from the previous year's $10.3 million. We were able to maintain net interest margin and adopt a disciplined approach to cost management, including the suspension of management remuneration increases; however, the following impacts contributed to the overall reduction in profit.

- One-off budgeted pre-merger and integration costs of $3.6 million.
- Delivery to members of a merger commitment to ongoing fee reductions of $4 million (annualised).
- A specific $10.7 million credit provision for potential COVID-19 related losses.
- An additional $3 million provision raised against a legacy property development exposure, partially offset by improved delinquencies.

On a normalised basis, profit after tax would have increased by 28% year-on-year, which would have been some 12% below our post-merger budget expectation.

The following Group financial results include consolidation of BCCU Ltd for eight months (since merger 1 November 2019).

- Net profit after tax of $3.2 million, down 69% from the previous year's $10.3 million.
- Net interest income increased by 38% to $103.9 million.
- Non-interest revenue and other income increased by 11% to $17.6 million.
- Credit impairment losses increased by 274% to $13.3 million.
- Other expenses increased by 42% to $103.6 million.
- Total assets increased to $6,182 million.
- Total members' funds increased to $445 million.
- The Group's capital adequacy ratio remains strong at 14.84%.
- Total membership numbers stand at 156,925.

CEO Report

Economic outlook

Uncertainty is the only certainty. The global landscape is being fuelled by many factors, including the ongoing trade tensions between China and the US, the all-consuming US election narrative and the severe economic impacts of the COVID-19 pandemic.

On the domestic front, the Federal and State Governments, the Reserve Bank of Australia and the regulators have focused heavily on stimulating the economy, working hand-in-hand with the banking industry to help navigate the crisis.

The good news amidst the severe global downturn is that Australia has greater capacity than most nations to provide further stimulus if required; however, the support payments have to be wound back at some point and we will then enter a period in which household incomes and business profits will decline. While house prices have remained relatively resilient to date, there is likely further economic pain to come. Added to the further uncertainty that ongoing travel restrictions and border closures will bring, we believe it prudent to have taken a conservative approach to future credit losses.

Acknowledgements

In closing, I would like to thank the Board for their support during what has been a year of unprecedented economic challenge, strategic importance and significant integration and transformation activity across our Group.

To our outgoing Chair, Paul Gabb, I sincerely thank him for his commitment and leadership in positioning our organisation for a strong future, and for the personal support and counsel he has provided me with over the past six years.

I would like to acknowledge and thank the Executive, management and all the staff for their determination and resolve in bedding down the merger. Throughout the year they have demonstrated passion, commitment and resilience in dealing with a significant volume of change and the many unforeseen events. Our merger has delivered the strong foundations that our new strategy will build upon and I would like to say thank you again for all your hard work.

And of course, I would like to end by acknowledging and thanking you, our members. We pride ourselves on offering a genuine banking alternative and I trust that you will continue to support us as we develop and transform our banking offering for your benefit.

Andrew Hadley
Chief Executive Officer

"Our Group's greatest asset is our people. They are one of the primary reasons our brands enjoy such high member advocacy and loyalty."

General Manager bcu Report

I am honoured to present the inaugural General Manager bcu Report as part of this year's Annual Report.

Since our merger, it has been a privilege and delight to lead the bcu brand in New South Wales and south east Queensland, working alongside our highly energised team and meeting members from across our regions.

I would personally like to add my thanks to those members who voted for a more prosperous and sustainable future for bcu and give you my ongoing commitment to put the needs of our members first.

As mentioned in our Chair Report, our Board of Directors hosted a small gathering in Coffs Harbour earlier this year for key stakeholders, and I am very much looking forward to our east coast members enjoying greater access to all our Directors and Executives once the COVID-19 social distancing and travel considerations are behind us.

Building a stronger future

One of the first merger benefits implemented was the removal of the personal account monthly fee along with twelve other fees, providing benefits to some 75% of our east coast members. This was closely followed by an internal consultation program with our staff to identify ways to optimise our member service and processes.

At the same time, we undertook a review of our products and services to plan for our banking system integration in October 2020. As outlined in our CEO Report, this will consolidate our banking systems and vendor partners across our Group, providing a strong foundation for future enhancements and upgrades to our banking, internet banking and mobile app offerings.

I want to assure you that we have worked very hard to minimise member disruption wherever possible, contacting members across a number of channels to prepare for the changes. Our new banking system will deliver long term benefits, such as improved digital banking capability and more efficient processes, that will mean we can provide our members with compliant banking services that are faster, easier and safer to use.

I trust these benefits will outweigh any short-term inconvenience and hope that many of you take up our improved digital banking services that will be available to you in late 2020 such as digital wallets.

And of course, while our digital banking services deliver more convenient banking on the go, our commitment to bcu stores remains strong with many of our members visiting our premises to do their banking. For those members who bank in Brisbane, we will soon relocate our Brisbane store to new, larger premises at the central location of 100 Edward St Brisbane where we will serve our members from the Level 8 Service Hub. Our regional Brisbane back-office will also relocate and share the premises with our Service Hub team.

In other areas of our business, we have leveraged the larger marketing resource now available to us as a result of the merger and have kick started some fresh and exciting bcu brand marketing campaigns and innovative local area marketing initiatives, taking the bcu message to the marketplace and bringing new members to our doors. Our recent OMG television campaign featured our bcu lenders and has certainly attracted attention, with an increase in lending enquiries as a result.

bcu business lending specialists have continued to provide expertise, personalised service and competitive products for small to medium enterprise owners across our regions throughout the year. Whether it is agricultural lending, commercial or small business, bcu have a demonstrated capability in all these areas.

And speaking of lending, as well as our own bcu media campaigns, bcu's competitive home lending rates have recently featured at the top of popular rate comparison tables and in mainstream media, which is also helping to build our brand awareness across NSW and Queensland.

Community

Less than two weeks after the merger, the full force of the tragedies of the NSW and Qld bushfires took hold with devastating impacts on our communities and some of our bcu members, their families and our people.

True to form, our staff were quick to rally to the aid of our local communities wherever possible arranging horse and cattle food, supporting local fire services with care packages, facilitating donations to the Bushfire Appeal, and providing impacted members with Bushfire Relief Packages.

Many of our stores were affected by the fires and bcu supported those staff who had to care for their children when schools were closed due to smoke alerts.

As the full impacts of the bushfires began to diminish, our communities were hit with devasting floods impacting many of our regions and again, causing significant disruption. Our Dorrigo store was particularly impacted with our team unable get to the store due to road closures.

As always, our resilient bcu staff and members went above and beyond to assist their communities and each other wherever possible. I'm very proud to have seen our people come together to face these natural disasters and I look forward to bcu continuing to play an integral role in supporting our members and their communities in the future.

In September, bcu celebrated its 50-year anniversary and whilst it was not possible to host a pinnacle event to celebrate our rich past and bright future, we did acknowledge the support of our members through TV and radio advertising.

To celebrate the 50-year anniversary, bcu is providing an additional $50,000 in local community grants, in addition to the annual Bill Ussher Scholarship program which provides support for younger people in our regions.

Other community activities that have been supported by bcu include our sponsorship of the Woolgoolga Marine Rescue, with funds provided to purchase equipment for the rescue unit.

Since 2017, bcu continues to support the Sawtell Surf Life Saving Club, with funding that assists the purchase of important lifesaving equipment, such as surfboards and a beach patrol ute.

The bcu Macksville Ride Around the River (in support of the Brian Cockbain memorial) is another marquee community event that we have supported since 2014.

Our people

Our people are enjoying significant benefits and positive change as a result of our merger.

Many of the cultural, training and development programs from P&N have been tailored and delivered to our bcu teams and I know how much our people have responded positively to these changes. Our frontline staff in particular have been able to upskill and develop in a range of capabilities that did not exist prior to the merger. A specific example is the introduction of a key program that trains our staff to better help members achieve their financial goals.

Now, as part of a larger organisation, it's been especially heartening to see the levels of collaboration and connectivity across teams from all three states. We have created uniform internal communications processes and platforms across our brands in terms of strategic, operational and monthly performance which is serving bcu well.

Our people also took part in delivering another important milestone for our brand, when bcu's new Enterprise Agreement was ratified in April with 99.5% of staff voting in favour of the new agreement.

Looking forward

All in all, despite a year of challenging external circumstances, bcu is in great shape and has a positive future ahead. I would like to thank and acknowledge our hard-working staff and in particular thank our members for your loyalty and support. I look forward to building on the successes of this year and certainly look forward to meeting many more of you in the year ahead.

Mike Ribbens
General Manager bcu

General Manager P&N Bank Report

What a unique year it has been for P&N Bank. I'm proud to deliver this Report which highlights the brand activities undertaken to deliver our members exceptional service and develop P&N's strong brand presence in WA, resulting in solid new membership growth for the year.

With our genuine approach to focusing on members, P&N has continued to enjoy industry leading customer advocacy. Our customer centricity was further highlighted when P&N was awarded the Most Recommended Customer-owned Bank at the 2020 DBM Australian Financial Awards as well as ranking second in the national Glow Australian Banking Brand and Trust Index Report.

With the impacts and isolation of COVID-19, human connection has never been more important. Our media campaigns "Come Together" during the early months of the pandemic, and the recent "This is Us" featuring our staff and members, positively demonstrate who we are and what we represent as a banking brand and organisation, and have been warmly received by our staff, members and the WA community. I'm very proud to lead a brand that is so genuinely committed to its core values.

Our merger with bcu

I too would like to thank those members who voted to support our merger with bcu. The favourable vote was the result of our extensive member consultation program "Stronger Together", that kicked off the financial year with Town Hall meetings across our network. These meetings were followed by a direct communications program outlining the member benefits of building size and scale through the merger.

With the merger approved by Regulators, we delivered early benefits by removing a range of fees across products, to benefit members. As an additional merger promise our Helping &nds community commitment was doubled, with that investment going towards the Manna Schools Breakfast Program. This program supports communities where a significant group of students attend school not having had breakfast, as well as providing Food & Care Relief packages, Learning Support and Active & Social Care.

P&N leaders and staff have played an important role supporting bcu's front line teams and helping to assist with their important banking system cutover.

Banking highlights

In terms of performance, and as a fitting end to the year, P&N Bank recently achieved the significant milestone of 100,000 brand customers.

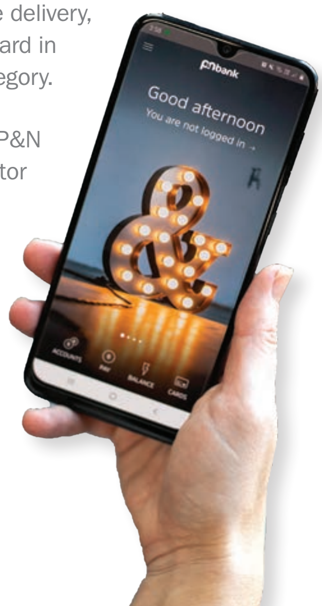
We enjoyed remarkable growth in transaction balances demonstrating that even more Western Australians are choosing P&N as their main bank. Notwithstanding the severe economic and market impacts of COVID-19, we continue to reinforce our position as a lender of choice for many West Australians.

In late 2019, P&N applied to be a part of the Government's new First Home Loan Deposit Scheme (FHLDS) through an extensive application process. The FHLDS assists eligible low to middle income earners enter the property market and with our genuine commitment to help WA borrowers, we were not only proud to be accepted into the Scheme but were the only WA based lender to do so. Since February 2020, we have helped over 200 West Australians purchase their first home through our branches, mobile lenders and broker partners.

At the opposite life stage to first home buyers, P&N is one of a handful of lenders to offer the benefits of Reverse Mortgages to those retirees who have significant equity and would like to remain in their family home, by unlocking access to cash to improve their lifestyle.

With more than half of West Australians choosing to use a mortgage broker, P&N's broker channel continues to deliver a compelling lending proposition to those customers, with the team recently acknowledged by the industry for their exceptional service delivery, winning the WA MFAA Excellence Award in the Mutuality/Speciality Lender Category.

Away from lending, in recent years P&N has established itself as an innovator in digital banking. This year saw us launch a fully digitised online personal loan and credit card experience, giving members the choice to apply and have their loan approved and funded digitally.



Our new 24/7 lending chat bot "Andi" was introduced, and the recent introduction of our Membership Dashboard plus new member onboarding experience in branch ensures customers are able to open memberships with greater speed and efficiency, and less paperwork.

The important commitment to our branch network continues, with the re-design and fit out of our Warwick branch in August 2019, and our new look Belmont branch, due to open in August 2020.

Taking care of our community

Much mention has been made about our Group's response to COVID-19 and I would particularly like to call out the way that P&N staff have shone throughout a time of such uncertainty.

With a number of P&N members disadvantaged by the pandemic, we quickly developed a support approach that included lending repayment relief, special term deposit and fixed rate loans, insurance offers and frequent direct member communications and out bounding care calls.

To ensure the necessary support for our community partners through this difficult period, P&N provided additional financial support to existing community partner Lifeline WA, and one-off donations to Manna, the Harry Perkins Institute, Zonta House Refuge and Buy-a-Meal.

These charities were chosen for the much-needed support they were offering to those West Australians who were facing a lack of food and dangerous living situations during social isolation, as well as supporting the exceptional people who work in the healthcare frontline.

Outside of the COVID-19 impacts, P&N's Helping &nds group grants have continued to support 40 small not for profit groups throughout the year, nominated by and voted for by our members.

Our unique Individual Helping &nds program also continues to quietly care for individuals and families needing help, such as the purchase of feeding apparatus for a three-year-old with special medical needs and medical expenses for a person involved in a major road trauma. Members can nominate any individual or family for a Helping &nd whether the intended recipient is a member or not.

In addition, the Perth Wildcats, sponsored by P&N, again reached the pinnacle of success in taking home the 2020 NBL championship in unique COVID-19 related circumstances. With the P&N logo proudly displayed on the front of the player jerseys, our brand has enjoyed high prominence throughout the national televised game night coverage and in the course of weekly media interviews and reporting.

Our people

Our members would not be as loyal as they are without the consistent and genuine support of our people who regularly go above and beyond to provide the very best banking experience. I am particularly proud of the way that we have developed our approach to diversity, with inclusivity a core pillar of our workplace. I would like to thank the P&N team for the care and commitment you continuously show to our members and each other.

Looking forward

We continue to focus our efforts on new products and service developments and look forward in the coming period to the launch of a new and improved website, a fully online home loan experience, further branch upgrades and improvements to the service and support model we provide to our Broker partners.

I always enjoy meeting members when in branches and hearing your feedback through our regular &News channel. I encourage you to keep sharing your opinions with me, and I look forward to delivering an even better member experience to you in the future.

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 2020.

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 operations of the Board and a framework for ensuring internal control and business risk management processes are adequate and ethical standards are appropriate. Unless otherwise stated, all these practices were in place for the entire financial year.

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

- contributing to, evaluating, approving and monitoring strategic direction and business objectives developed in conjunction with management;
- monitoring the Group's progress against agreed performance measures linked to business objectives and strategies, and comparing these with those of peers in the marketplace;
- contributing to and enhancing the reputation and image of the Group to members/shareholders, the marketplace and the community at large;
- ensuring 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:

Paul Marshall GABB

(Chair) B.Com (Accounting) CPA FAICD Grad Cert (Forensic Accounting)

Executive - Australian Federal Police, over 20 years' service as a Director of the Bank; more than 30 years' service in Law Enforcement. Ex-officio member of all Board committees from 4 November 2019.

Stephen John MELVILLE

(Deputy Chair) B.Bus (Accounting) FCPA GAICD (retired 23 October 2019)

Director - Corporate Services, Department of Jobs, Tourism, Science & Innovation, 25 years' service as a Director of the Bank. Has held senior executive positions in both private and government organisations with considerable experience in a range of accounting, financial management and marketing roles.

Nominations Committee Chair and Risk Committee member to 23 October 2019.

Stephen Craig TARGETT

(Deputy Chair) FAICD, MAIEx (Diploma) (appointed 1 November 2019)

Director with extensive experience running bank divisions, both globally and locally. Has had recent experience as both a Chair and a CEO of Member Owned Banks. A member of the Board Governance & Remuneration Committee from 4 November 2019 and Nominations Committee Chair from 23 March 2020.

Eric Laurence SMITH

FAICD FAMI (retired 23 October 2019)

Detective Inspector – WA Police Force, over 40 years' service. Certificate in Police Studies, Diploma of Policing, Advanced Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Graduate Certificate of Business (Leadership), Graduate Diploma of Business (Leadership & Management). 25 years' service as a Director of the Bank. Audit Committee member from 26 November 2018 to 23 October 2019. Board Governance and Remuneration Committee member to 23 October 2019.

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 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 (Accounting) MAICD

Experienced banking and financial services professional with 30 years operating in Australia in banking and senior executive positions and 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 over 40 years as a member of the Bank. Risk Committee member.

Louise Anne CLARKE
BBus (appointed 1 November 2019)

Executive and leadership coach with over 30 years' experience in the financial services sector as a Senior Executive. Risk Committee member from 4 November 2019.

Gary Colin HUMPHREYS
GAICD AMP173 (appointed 1 November 2019)

Senior Executive with over 20 years' experience operating large corporations as deputy CEO and COO. Audit Committee member from 4 November 2019.

Each Director holds one member share in the Bank.

Company Secretaries

Jennifer Anne HANDZ
BJuris LLB

General Counsel and Company Secretary of the Bank, with over 30 years' banking and finance, restructuring and corporate law experience. Has held senior legal roles in Perth, Beijing, London, Moscow, Hanoi and Warsaw. Admitted as a solicitor and barrister to the Supreme Court of Western Australia in 1987.

Jacqueline Anne DONALD
LLB (Hons)

General Counsel and Company Secretary of the Bank with over 20 years' corporate law experience. Has held senior legal roles in private practice law firms in Australia and the United Kingdom. Admitted as a solicitor in Scotland in 2000, admitted as a solicitor in New South Wales in 2009 and holds a current Western Australian legal practising certificate.

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 has an independent process for the evaluation of its own and individual Board member's performance.

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 2020 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**
P M Gabb	16	16	*	*	*	*	*	*
S J Melville**	2	2	*	*	2	2	*	*
E L Smith	2	2	3	2	*	*	1	1
K L Properjohn	16	14	7	6	*	*	4	4
T J Hunt	16	16	7	7	7	7	*	*
A C Philp	16	14	*	*	7	7	*	*
L A Clarke	14	14	*	*	5	5	*	*
G C Humphreys	14	13	4	4	*	*	*	*
Board appointed directors								
S C Targett	14	14	*	*	*	*	3	3
E R Bradley	16	16	*	*	7	7	4	4
J A Elliott	16	15	7	7	*	*	4	4
A D Hadley***	16	16	*	*	*	*	*	*

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

B Number of meetings attended.

* Not a member of the relevant Committee.

** The Nominations Committee did not meet during the year ended 30 June 2020.

*** 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/shareholders at the Annual General Meeting and divided amongst the Directors in such a manner as the Board determines.

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 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 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 practices in 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 to assess the performance of each Director and the Chief Executive Officer and to assist the Board 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 & Proper 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 2020 financial year will be remembered for two major events:

- the successful vote by our members which overwhelmingly supported the merger of the Company and BCCU Ltd that brought together a multi-brand organisation with an asset base in excess of $6 billion. Post merger, the BCCU Ltd operations are consolidated for eight months and operate as a division of the Bank carried on under the trading name 'bcu'; and
- the COVID-19 pandemic outbreak has impacted every part of the globe. With the support of the Australian government and the Reserve Bank of Australia (RBA), a significant amount of funds have been made available to support the economy. The Group also responded by providing relief to those

members requesting support. With the onset of the pandemic, the RBA reduced the official interest rate by 1% through a series of rate cuts during the year. We responded by balancing our members' needs for lower interest rates on loans whilst trying to support members' needs on their deposits.

The above events have contributed to very tough economic conditions. The merger with BCCU Ltd contributed nearly $2 billion of assets to the Bank. Profit after tax was 69% lower than last year. This was driven by a $10.7 million impairment charge reflecting the adverse macro-economic conditions expected over the forseeable future and a provision for expected future losses because of the pandemic. The results also include a $3.6 million charge for both pre-merger and integration costs. Without these two charges, profit after tax would have been 28% up for the year.

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

Outlook

We expect the record low-interest rate environment will be with us for the foreseeable future and whilst Western Australia was showing signs of recovery earlier this calendar year, we expect the COVID-19 pandemic to continue to put a strain on Australia's economy. We believe that we have raised sufficient provisions for credit losses in the coming year as Australia continues to respond to the COVID-19 Pandemic and we will continue to support our members through this difficult time.

Significant Changes

The merger between the Bank and BCCU Ltd was accounted for in terms of the AASB 3 *Business Combinations* whereby the Bank was defined as the acquirer and BCCU Ltd the acquiree. There was no consideration paid for the merger and BCCU Ltd's assets and liabilities were brought onto the balance sheet at 1 November 2019 at fair value. The net impact of this was that assets were revalued up $2.59 million and liabilities were valued up $2.17 million.

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

The uncertainty regarding the duration and extent of the COVID-19 pandemic impact on the economy and the recovery thereafter persists. We considered and concluded that the events after the balance sheet date would not require adjustments made to the amounts and disclosures in the financial statements. There were no other 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.

P.M. Gabb

P M GABB
Director

S C TARGETT
Director

Date: 31 August 2020
PERTH WA

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Limited for the year ended 30 June 2020, 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.

This declaration is in respect of Police & Nurses Limited and the entities it controlled during the period.

Douglas Craig
Partner
PricewaterhouseCoopers

Perth
31 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Income Statements

Year Ended 30 June 2020	Notes	Consolidated		Police & Nurses Limited	
		2020	2019	**2020**	2019
		$000	$000	**$000**	$000
Interest revenue	3	**177,639**	161,378	**196,628**	187,146
Interest expense	3	**73,788**	85,888	**98,421**	117,048
Net interest income		**103,851**	75,490	**98,207**	70,098
Non-interest revenue					
Loan fee revenue		**3,066**	2,392	**3,066**	2,392
Financial services fees		**4,024**	2,828	**4,024**	2,828
Financial planning fees		**2,507**	2,645	**-**	-
Other fee revenue		**436**	513	**436**	515
Securitisation servicing fees		**-**	-	**4,979**	4,747
Insurance commissions		**2,960**	2,971	**2,960**	2,971
Other commissions		**2,122**	2,196	**2,122**	2,196
Dividend revenue		**466**	287	**617**	465
Other income					
Bad debts recovered		**386**	364	**386**	364
Other income		**1,591**	1,691	**2,009**	1,470
Total non-interest revenue and other income		**17,558**	15,887	**20,599**	17,948
Total income		**121,409**	91,377	**118,806**	88,046
Credit impairment loss	4	**13,290**	3,555	**13,213**	3,507
Other expenses					
Finance costs		**1,359**	980	**1,359**	980
Depreciation and amortisation		**11,261**	5,041	**11,232**	5,013
Fees and commissions		**10,838**	7,664	**10,581**	7,416
Employee benefits expense		**49,594**	33,840	**47,975**	32,316
Information technology costs		**11,173**	7,518	**11,079**	7,425
Marketing costs		**5,255**	3,962	**5,243**	3,947
Other general and administration costs		**14,073**	7,482	**13,066**	6,863
Net loss on disposal of property, equipment and intangible assets		**3**	367	**3**	381
Rental - operating leases		**63**	6,061	**63**	6,061
		103,619	72,915	**100,601**	70,402
Total expenditure		**116,909**	76,470	**113,814**	73,909
Profit before income tax		**4,500**	14,907	**4,992**	14,137
Income tax expense	5	**1,299**	4,538	**1,431**	4,450
Profit for the year		**3,201**	10,369	**3,561**	9,687
(Profit)/loss attributable to non-controlling interests		**(28)**	(53)	**-**	-
Profit attributable to members		**3,173**	10,316	**3,561**	9,687

The above income statements should be read in conjunction with the accompanying notes.

Statements of Comprehensive Income

Year Ended 30 June 2020	Notes	Consolidated		Police & Nurses Limited	
		2020	2019	**2020**	2019
		$000	$000	**$000**	$000
Profit for the year		**3,201**	10,369	**3,561**	9,687
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	27(c)	**133**	(364)	**133**	(364)
Income tax relating to these items	5(c)	**(39)**	109	**(39)**	109
Items that will not be reclassified to profit or loss					
Changes in the fair value of financial assets held at FVOCI	27(d)	**-**	(2,000)	**-**	-
Other comprehensive income for the period, net of tax		**94**	(2,255)	**94**	(255)
Total comprehensive income for the period		**3,295**	8,114	**3,655**	9,432
Total comprehensive income for the year is attributable to:					
Members of the Bank		**3,267**	8,061	**3,655**	9,432
Non-controlling interests		**28**	53	**-**	-
		3,295	8,114	**3,655**	9,432

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheets

As at 30 June 2020	Notes	Consolidated		Police & Nurses Limited	
		2020	2019	**2020**	2019
		$000	$000	**$000**	$000
Assets					
Cash and cash equivalents	6	**183,923**	91,369	**110,489**	57,227
Receivables due from other financial institutions	7	**810,200**	437,674	**810,200**	437,674
Financial Assets held at FVOCI [(i)]	8	**9,024**	6,562	**8,824**	6,562
Assets held for sale	9	**618**	618	**-**	-
Other assets	10	**6,361**	5,365	**6,117**	4,333
Other financial assets held at AC [(ii)]	11	**21,715**	24,601	**179**	367
Other financial assets held at FVPL [(iii)]	12	**992**	1,131	**15,916**	15,916
Loans and advances	13	**5,073,555**	3,674,715	**5,073,555**	3,674,715
Derivative financial instruments	15	**385**	94	**385**	94
Due from controlled entities	16	**-**	-	**94,079**	47,165
Property and equipment	17	**26,609**	15,026	**25,198**	14,981
Right-of-use assets	18	**30,389**	-	**30,389**	-
Investments in controlled entities	19	**-**	-	**4,745**	4,755
Intangible assets	20	**6,882**	7,230	**5,310**	5,658
Deferred tax assets	21	**11,495**	3,713	**11,779**	3,916
Total assets		**6,182,148**	4,268,098	**6,197,165**	4,273,363
Liabilities					
Members' deposits	22	**4,964,141**	3,176,461	**4,966,115**	3,177,113
Other payable	23	**11,033**	14,469	**10,967**	14,067
Lease liabilities	18	**35,203**	-	**35,203**	-
Derivative financial instruments	15	**730**	552	**698**	449
Current tax liabilities		**103**	477	**129**	441
Borrowings	24	**718,246**	781,423	**414,057**	395,413
Due to controlled entities	16	**-**	-	**317,513**	391,761
Provisions	25	**7,651**	4,071	**7,422**	3,814
Deferred tax liabilities	26	**-**	-	**-**	-
Total liabilities		**5,737,107**	3,977,453	**5,752,104**	3,983,058
Net assets		**445,041**	290,645	**445,061**	290,305
Members' funds					
Reserves	27	**222,006**	221,116	**224,006**	223,116
Retained earnings	27	**71,646**	68,887	**70,336**	67,189
Contributed equity	27	**150,719**	-	**150,719**	-
Non-controlling interests		**670**	642	**-**	-
Total members' funds		**445,041**	290,645	**445,061**	290,305

(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 balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

Year Ended 30 June 2020	Notes	Consolidated				
		Reserves	Contributed equity	Retained earnings	Non-controlling interests	Total
		$000	$000	$000	$000	$000
Total member's funds (equity) as at 30 June 2018		223,342	-	61,884	589	285,815
Impact of transition to AASB 9		-	-	(3,284)	-	(3,284)
Restated total member's funds as at 1 July 2018		**223,342**	**-**	**58,600**	**589**	**282,531**
Profit for the year		-	-	10,369	-	10,369
Profit attributable to non-controlling interests		-	-	(53)	53	-
Amount transferred to share capital reserve		29	-	(29)	-	-
Changes in the fair value of cash flow hedges, net of tax		(255)	-	-	-	(255)
Changes in the fair value of financial assets held at FVOCI		(2,000)	-	-	-	(2,000)
Total member's funds (equity) as at 30 June 2019		**221,116**	-	68,887	642	290,645
Impact of transition to AASB 16 (1(af))		-	-	(380)	-	(380)
Restated total member's funds as at 1 July 2019		**221,116**	**-**	**68,507**	**642**	**290,265**
Addition through acquisition		762	150,719	-	-	151,481
Profit for the year		-	-	3,201	-	3,201
Profit attributable to non-controlling interests		-	-	(28)	28	-
Amount transferred to share capital reserve		34	-	(34)	-	-
Changes in the fair value of cash flow hedges, net of tax		94	-	-	-	94
Total member's funds (equity) as at 30 June 2020		**222,006**	**150,719**	**71,646**	**670**	**445,041**

Year Ended 30 June 2020	Notes	Police & Nurses Limited				
		Reserves	Contributed equity	Retained earnings	Non-controlling interests	Total
		$000	$000	$000	$000	$000
Total member's funds (equity) as at 30 June 2018		223,342	-	60,904	-	284,246
Impact of transition to AASB 9		-	-	(3,373)	-	(3,373)
Restated total member's funds as at 1 July 2018		**223,342**	**-**	**57,531**	**-**	**280,873**
Profit for the year		-	-	9,687	-	9,687
Amount transferred to share capital reserve		29	-	(29)	-	-
Changes in the fair value of cash flow hedges, net of tax		(255)	-	-	-	(255)
Total member's funds (equity) as at 30 June 2019		**223,116**	-	67,189	-	290,305
Impact of transition to AASB 16 (1(af))		-	-	(380)	-	(380)
Restated total member's funds as at 1 July 2019		**223,116**	**-**	**66,809**	**-**	**289,925**
Addition through acquisition		762	150,719	-	-	151,481
Profit for the year		-	-	3,561	-	3,561
Amount transferred to share capital reserve		34	-	(34)	-	-
Changes in the fair value of cash flow hedges, net of tax		94	-	-	-	94
Changes in the fair value of financial assets held at FVOCI		-	-	-	-	-
Total member's funds (equity) as at 30 June 2020		**224,006**	**150,719**	**70,336**	**-**	**445,061**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statements

Year Ended 30 June 2020	Notes	Consolidated		Police & Nurses Limited	
		2020	2019	**2020**	2019
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**164,042**	144,413	**164,042**	144,413
Net increase in loans and advances		**(17,037)**	(129,939)	**(17,037)**	(129,979)
Net movement in receivables due from other financial institutions		**(117,200)**	(39,702)	**(117,200)**	(39,702)
Interest received from investments		**13,597**	17,072	**32,586**	42,839
Commissions and other income received		**16,955**	17,461	**19,230**	15,894
Net increase in members' deposits		**228,489**	206,090	**229,830**	206,123
Net borrowings from other financial institutions		**(63,177)**	(83,153)	**18,644**	35,514
Borrowing costs - members		**(61,553)**	(76,863)	**(61,557)**	(76,870)
Net movement in interest rate swaps		**(362)**	16	**(291)**	2
Borrowing costs - banks		**(12,235)**	(22,068)	**(36,865)**	(53,221)
Interest Paid		**(636)**	-	**(636)**	-
Payments to employees and suppliers		**(105,372)**	(59,895)	**(102,039)**	(57,039)
Income taxes paid		**(4,021)**	(9,014)	**(3,785)**	(9,294)
Transaction costs relating to acquisition	35	**(1,274)**	-	**(1,274)**	-
Net cash inflow from operating activities	28	**40,216**	(35,582)	**123,648**	78,680
Cash flows from investing activities					
Dividends received		**466**	287	**327**	120
Proceeds from sale of property and equipment		**2,057**	(109)	**2,057**	(121)
Cash received on acquisition	35	**59,873**	-	**59,873**	-
Net proceeds from sale of assets & liabilities held for sale		**339**	616	**339**	-
Net movement in other investments		**(198)**	-	**5**	(2,000)
Payments for property and equipment		**(3,341)**	(13,024)	**(1,946)**	(12,992)
Payments for intangible assets		**(2,053)**	(2,065)	**(2,053)**	(2,065)
Loans to/repayments from controlled entities		**-**	-	**(124,183)**	(97,262)
Net cash outflow from investing activities		**57,143**	(14,295)	**(65,581)**	(114,320)
Cash flows from financing activities					
Principal element of lease payments		**(4,760)**	-	**(4,760)**	-
Member shares issued		**110**	75	**110**	75
Member shares redeemed		**(155)**	(73)	**(155)**	(73)
Net cash inflow from financing activities		**(4,805)**	2	**(4,805)**	2
Net (decrease)/increase in cash and cash equivalents held		**92,554**	(49,875)	**53,262**	(35,638)
Cash and cash equivalents at the beginning of the year		**91,369**	141,244	**57,227**	92,865
Cash and cash equivalents at the end of the year	6	**183,923**	91,369	**110,489**	57,227

The above cash flow statements 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 parent entity and consolidated 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 income statement and balance sheet 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 2019:

- AASB 16 *Leases*
- AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of AASB 16 as disclosed in note 1(af). The other amendment listed above 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 consideration.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(ii) Joint arrangements

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

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

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Loan provisioning

The Group recognises

- specific provisions relating to incurred losses, and
- expected credit losses (ECL's) based on a forward looking model

Specific Provisions for impairment are maintained at an amount adequate to cover incurred credit related losses. The Group assesses, at each Balance Sheet date, whether there is any objective evidence of impairment. A loan is deemed impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the loan (an incurred 'loss event') and that this loss event has an impact on the estimated future cash flows relating to that loan. Evidence of impairment 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 objective evidence of impairment, the amount of loss is measured as the difference between the loan's carrying amount and the present value of any expected future cash flows.

The Group assesses on a forward-looking basis the ECL associated with Loans and Advances. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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.

(d) Property and equipment

Property, equipment and leasehold improvements are shown at historical cost less, where applicable accumulated depreciation and impairment losses. 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 income statement during the financial period in which they are incurred.

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 third party use.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses if any.

Depreciation

The depreciable amount of all property and equipment including buildings and capitalised leased assets 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

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.

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 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 income statement 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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income tax(continued)

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 income statement are also recognised directly in the income statement. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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.

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 stand alone taxpayer in its 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 income statement. 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 balance sheet 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 balance sheet.

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

(k) Trade receivables

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

- Fee and commission income on a range of banking products and services platforms, wealth services, credit cards, financial planning fees, structuring fees, lending services, stock borrowings and lending 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.
- Securitisation service fees
- Amenities fee revenue, included in other fee revenue, is received from a resident of the investment property as consideration for the right to the exclusive use of the dwelling occupied by the resident. This revenue is over the period of dwelling on a daily basis at a percentage of the estimate of the value of the dwelling at balance sheet date.

(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 on the basis of 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 financial instruments including derivatives and hedge accounting.

(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 income statement over the period of the borrowings using the effective interest method.

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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, 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 receivable/payable 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 with other receivables or payables in the balance sheet.

(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 will be recognised in the acquisition of a mutual entity. In a combination of mutual entities where only equity interests are transferred, the acquirer shall use the acquisition-date-fair-value of the acquiree's equity interests in place of the acquisition-date-fair-value of the consideration transferred.

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Business combinations (continued)

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 27).

Acquisition-related costs are expensed as incurred.

(w) Leases

The Group has changed its accounting policy for leases where the Group is lessee (note 1(a)). The Group adopted AASB 16 using the modified retrospective transition option and the impact of the change in accounting policy is disclosed in note 1(af). Under AASB 16 the Leases are recognised as a Right-of-use asset and a corresponding Lease liability at the commencement date, being the date the leased asset is available for use by the Group (note 18).

Until 30 June 2019, Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019 the Group has accounted for leases under AASB 16 *Leases*. The Group leases various offices and branches. Rental contracts are typically made for fixed periods of 12 months to 10 years, but may have extension options.

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

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

- fixed payments (including in-substance fixed payments), less any rental abatement
- variable lease 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 individual lessee 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 borrowing rate applied to the lease liabilities is the best rate the Group can access at the time the leases is taking up with similar duration of existing lease terms.

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the Right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its Land and buildings that are presented within Property and equipment, it has chosen not to do so for the Right-of-use assets held by the Group.

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 IT equipment and small items of office furniture.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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).

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.

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.

Loans modification

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to members. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Financial assets (continued)

interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining where a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credited impaired at initial recognition, especially in circumstances where the renegotiation was driven by the member being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in Profit or Loss. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

(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 derivatives that are liabilities, shall be subsequently measured at fair value.

(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 income statement as an adjustment to interest expense, except where hedge accounting applies.

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 forecasted 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 income statement 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 methodology

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 a loss allowance for such losses 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.

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 and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) 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.

(ae) 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 2020 reporting periods and have been adopted early by the Group.

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

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial report.

AASB 16 *Leases*

The Group has adopted AASB 16 *Leases* and elected to apply the modified retrospective approach, and has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are recognised as an adjustment to the Group's retained earnings as at 1 July 2019.

On adoption of AASB 16, the Group recognised Lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the Lease liabilities on 1 July 2019 was 2%, which was the best rate the Group could access as at 1 July 2019 with the similar duration to existing lease terms.

(i) Practical Expedients

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the Right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease measured

(ii) Measurement of Right-of-use assets

The associated Right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

(iii) Measurement of Lease liabilities

	$000
Operating lease commitments disclosed as at 30 June 2019	29,749
Discounted using the lessee's incremental borrowing rate at the date of initial application	(3,110)
Add/(less) adjustments for lease incentives	(4,480)
Lease liability recognised as at 1 July 2019	**22,159**

(iv) Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets – increased by $18,211,000
- Deferred tax assets – increased by $1,184,000
- Lease liabilities – increase by $22,159,000
- Current tax liability -increased by $1,021,000
- Deferred income – decreased by $3,405,000

The net impact on retained earnings on 1 July 2019 was a decrease of $380,000.

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

AASB Interpretation 23 clarified the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to 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.

The Group has no uncertain tax position as at 30 June 2020.

Notes to the Financial Statements

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Loan provisioning

Specific loan provisions are calculated for loans where objective evidence of impairment is present. Objective evidence of impairment is defined in note 1(c) above. The Group has provided for all loans where there is objective evidence of impairment and 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 expected credit loss 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 20.

(iii) Property development

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. Details of assets and liabilities associated with assets held for sale are set out in note 9.

(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 income statement. Gains and losses as a result of interest rate swaps that do not qualify as cash flow hedges are posted immediately to the income statement.

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 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:

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

(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 2020	**2020**			2019		
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)	**765,691**	**13,597**	**1.78%**	548,847	17,072	3.11%
Loans and advances (ii)	**4,642,346**	**164,042**	**3.53%**	3,616,661	144,306	3.99%
	5,408,037	**177,639**	**3.28%**	4,165,508	161,378	3.87%
Interest-bearing liabilities						
Members' deposits (ii) (iii)	**4,099,161**	**61,553**	**1.50%**	2,873,557	64,800	2.26%
Borrowings from other banks/ADIs (i)	**923,864**	**12,235**	**1.32%**	1,004,361	21,088	2.10%
	5,023,025	**73,788**	**1.47%**	3,877,918	85,888	2.21%

	2020	2019
Analysis of net interest income		
Net interest income	**103,851**	75,490
Average interest-earning assets	**5,408,037**	4,165,508
Net interest margin (iv)	**1.92%**	1.81%
Spread (v)	**1.82%**	1.66%

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 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
4 CREDIT IMPAIRMENT LOSS				
Receivables due from other financial institutions	**(23)**	3	**(23)**	3
Other financial assets held at AC	**3,000**	2,000	**-**	-
Loans and advances	**9,070**	1,491	**9,070**	1,491
Due from controlled entities	**-**	-	**2,923**	1,952
Undrawn credit commitments	**1,243**	61	**1,243**	61
	13,290	3,555	**13,213**	3,507
CREDIT IMPAIRMENT LOSS BY STAGES				
Specific	**6,007**	3,077	**5,930**	3,029
Collective stage 1	**5,463**	(48)	**5,463**	(48)
Collective stage 2	**940**	318	**940**	318
Collective stage 3	**880**	208	**880**	208
	13,290	3,555	**13,213**	3,507
OF WHICH RELATES TO LOANS AND ADVANCES				
Specific	**3,007**	1,077	**3,007**	1,077
Collective stage 1	**5,486**	(51)	**5,486**	(51)
Collective stage 2	**940**	318	**940**	318
Collective stage 3	**880**	208	**880**	208
	10,313	1,552	**10,313**	1,552
Undrawn credit commitments	**(1,243)**	(61)	**(1,243)**	(61)
	9,070	1,491	**9,070**	1,491

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
5 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**4,743**	4,564	**4,908**	4,142
Deferred tax	**(3,420)**	(129)	**(3,499)**	(20)
Under/(over) provided for current tax in prior years	**(24)**	103	**22**	328
Income tax expense	**1,299**	4,538	**1,431**	4,450
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease in deferred tax assets (note 21)	**(10,037)**	28	**(10,149)**	9
Decrease in deferred tax liabilities (note 26)	**6,617**	(157)	**6,650**	(29)
	(3,420)	(129)	**(3,499)**	(20)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**4,500**	14,907	**4,992**	14,137
Prima facie income tax calculated at 30% (2019: 30%)	**1,350**	4,472	**1,498**	4,241
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	**71**	32	**70**	32
Tax offset for franked dividends	**(140)**	(55)	**(98)**	(36)
Intragroup dividends	**-**	-	**(87)**	(103)
Other	**42**	(14)	**26**	(12)
	1,323	4,435	**1,409**	4,122
Prior year losses recouped				
(Over)/under provision in prior year, relating to:				
- Adjustment relating to subsidiary	**-**	213	**-**	213
- Other	**(24)**	(110)	**22**	115
Income tax expense	**1,299**	4,538	**1,431**	4,450
(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 21)	**39**	(109)	**39**	(109)
(d) Franking credits				
Franking credits based on a tax rate of 30%	**157,779**	93,516	**157,577**	93,341

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 16).

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
6 CASH AND CASH EQUIVALENTS				
Cash on hand	**5,719**	1,401	**5,719**	1,401
Cash and deposits at call with ADIs	**178,204**	89,968	**104,770**	55,826
	183,923	91,369	**110,489**	57,227

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
7 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest-earning deposits with ADIs	**810,917**	437,894	**810,917**	437,894
	810,917	437,894	**810,917**	437,894
Expected credit loss provision	**(717)**	(220)	**(717)**	(220)
	810,200	437,674	**810,200**	437,674

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

The increase in Interest-earning deposits with ADI's relate mainly to the securities transferred through the merger of Bananacoast Community Credit Union Limited (BCCU Ltd) as disclosed in Note 35 Business Combination.

The ECL provision of $717,000 (2019: $220,000) belongs to stage 1 collective.

The fair value of Receivables due from other financial institutions are $817,915,000 (2019: $444,723,000).

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
8 FINANCIAL ASSETS HELD AT FVOCI				
Investment in Cuscal (a)	**7,306**	6,498	**7,306**	6,498
Investment in Indue Ltd	**1,451**	-	**1,451**	-
Investment in other shares	**267**	64	**67**	64
	9,024	6,562	**8,824**	6,562

(a) Unlisted securities – investment in Cuscal

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 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
9 ASSETS HELD FOR SALE				
Land blocks held for sale	**618**	618	**-**	-
	618	618	**-**	-

This asset value has been determined at the lower of carrying amount and fair value less costs to sell. Assets held for sale are not depreciated or amortised while they are classified for sale.

During the financial year ended 30 June 2018, the joint venture at The Enclave Eagle Bay was dissolved and the Group reclassified the remaining lots to assets held for sale. The lots still remain on the balance sheet and the Group is actively engaged in the sales process.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2019	2019	**2019**	2019
	$000	$000	**$000**	$000
10 OTHER ASSETS				
Prepayments	**3,186**	2,441	**3,162**	2,388
Other receivables	**3,175**	2,924	**2,955**	1,945
	6,361	5,365	**6,117**	4,333

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

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
11 OTHER FINANCIAL ASSETS HELD AT AC				
Land and property development	**28,282**	27,395	**-**	-
Other financial receivables	**179**	952	**179**	367
	28,461	28,347	**179**	367
Expected credit loss provision	**(6,746)**	(3,746)	**-**	-
	21,715	24,601	**179**	367
Expected credit loss provision				
Opening balance	**3,746**	-	**-**	-
Impact of transition to AASB 9	**-**	1,746	**-**	-
Expected credit loss provision provided for during the year	**3,000**	2,000	**-**	-
Closing balance	**6,746**	3,746	**-**	-

Land and property development include $28,282,000 (2019: $27,395,000) 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.

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

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
12 OTHER FINANCIAL ASSETS HELD AT FVPL				
Investment in securitisation notes	**-**	-	**15,916**	15,916
Investment in Land and property development	**992**	1,131	**-**	-
	992	1,131	**15,916**	15,916

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

The Group holds an investment in Harrisdale, which develops land and property.

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
13 LOANS AND ADVANCES				
Home loans	**4,739,431**	3,530,123	**4,739,431**	3,530,123
Secured overdrafts	**28,747**	32,552	**28,747**	32,552
Personal loans	**47,039**	34,088	**47,039**	34,088
Overdraft & credit cards	**43,100**	36,749	**43,100**	36,749
Retail loans and advances	**4,858,317**	3,633,512	**4,858,317**	3,633,512
Commercial & property finance	**228,047**	42,988	**228,047**	42,988
Gross loans and advances	**5,086,364**	3,676,500	**5,086,364**	3,676,500
Effective interest rate adjustment *	**6,356**	4,327	**6,356**	4,327
Expected credit loss provision (a)	**(19,165)**	(6,112)	**(19,165)**	(6,112)
Net loans and advances	**5,073,555**	3,674,715	**5,073,555**	3,674,715

* The loans and advances taken on from BCCU Ltd 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.

All housing loans are secured by registered mortgages.

In financial year 2020, the fair value of Loans and advances were $ 10,850,000 higher than the carrying value.
In financial year 2019 the fair value of the Loans and advances did not significantly vary from the carrying value.

Notes to the Financial Statements

13 LOANS AND ADVANCES (continued)

The maturity tables are based on contractual terms.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Time to maturity				
Not later than one year	**183,726**	109,295	**183,726**	109,295
One year to five years	**70,651**	45,437	**70,651**	45,437
Over five years	**4,831,987**	3,521,768	**4,831,987**	3,521,768
	5,086,364	3,676,500	**5,086,364**	3,676,500

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

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Securitised Loans under management				
Pinnacle Series Trust 2013-T1	**41,599**	50,380	**41,599**	50,380
Pinnacle Series Trust 2014-SST	**1,579,696**	813,761	**1,579,696**	813,761
Pinnacle RMBS Warehouse Trust	**88,360**	112,393	**88,360**	112,393
Pinnacle Series Trust 2017-T1	**183,092**	228,918	**183,092**	228,918
	1,892,747	1,205,452	**1,892,747**	1,205,452

All trusts are consolidated as part of the Group (note 16). In accordance with AASB 9 *Financial Instruments*, the mortgages securitised in the trusts remain on the balance sheet of the Bank.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
(a) Loan expected credit loss provision				
Specific	**4,556**	2,935	**4,556**	2,935
Collective stage 1	**11,671**	1,577	**11,671**	1,577
Collective stage 2	**1,351**	680	**1,351**	680
Collective stage 3	**1,587**	920	**1,587**	920
	19,165	6,112	**19,165**	6,112
Undrawn credit commitments	**(3,035)**	(278)	**(3,035)**	(278)
	16,130	5,834	**16,130**	5,834
(b) Loan credit impairment losses				
Opening balance	**5,834**	4,551	**5,834**	4,551
Change of transition to AASB 9	**-**	2,514	**-**	2,514
Addition through acquisition	**3,635**	-	**3,635**	-
Bad debts previously provided for written off	**(2,409)**	(2,722)	**(2,409)**	(2,722)
Bad and doubtful debts provided for during the year	**9,070**	1,491	**9,070**	1,491
Closing balance	**16,130**	5,834	**16,130**	5,834
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Home loans	**671**	965	**671**	965
Commercial & property finance	**1**	875	**1**	875
Personal loans	**917**	401	**917**	401
Overdraft & credit cards	**820**	481	**820**	481
	2,409	2,722	**2,409**	2,722

Notes to the Financial Statements

14 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 2020 — **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 2018	**-**	**-**	**4,551**	**-**	**-**	**4,551**
Impact of transition to AASB 9	217	1,746	2,514	-	217	4,694
Balance as at 1 July 2018	**217**	**1,746**	**7,065**	**-**	**217**	**9,245**
Impairment expense/(reversal)	3	2,000	1,491	-	61	3,555
Amounts written off, previously provided for	-	-	(2,722)	-	-	(2,722)
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**

Year Ended 30 June 2020 — **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 2018	**-**	**-**	**4,551**	**-**	**-**	**4,551**
Impact of transition to AASB 9	217	-	2,514	1,871	217	4,819
Balance as at 1 July 2018	**217**	**-**	**7,065**	**1,871**	**217**	**9,370**
Impairment expense/(reversal)	3	-	1,491	1,952	61	3,507
Amounts written off, previously provided for	-	-	(2,722)	-	-	(2,722)
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**

14 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2020 — **Consolidated**

	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
(a) LOAN AND ADVANCES					
Balance as at 30 June 2018	-	-	-	**4,551**	**4,551**
Restated for adoption of new accounting standards	1,267	612	852	4,551	7,282
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	454	(269)	(163)	(22)	-
Transferred to Lifetime ECL - not credit impaired	(58)	113	(46)	(9)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(26)	(81)	107	-	-
Transferred to Lifetime ECL - credit impaired - specific provision	(9)	(13)	(38)	60	-
Bad debts written off	-	-	-	(2,722)	(2,722)
Charge to income statement from continuing operations	(51)	318	208	1,077	1,552
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 at 30 June 2020	**11,671**	**1,351**	**1,587**	**4,556**	**19,165**

The table includes the allocation of the undrawn credit commitments.

The underlying collective provisions were in line with the growth of the balance sheet and an improvement in delinquencies.

Economic conditions remain challenging with the full effect of COVID-19 not yet known. However, recognising COVID-19 and the likely increases in losses, a material Group macroeconomic overlay of $10,700,000 was recognised and applied at individual account level, resulting in increases across each ECL stage within the collective provision after modelling higher unemployment and contracting GDP.

Notes to the Financial Statements

14 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Sensitivity of provisions for ECL to changes in forward looking assumptions

As described in Note 34(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 adopted the following macroeconomic assumptions for the Base scenario within the model:

- Unemployment will rise to 9% for quarter ending June 2020 through to September 2020 and then improving to 7% in the quarter ending December 2020. It will be held at 7% until June 2021 and thereafter reverting to underlying pre-Pandemic levels under 5%.
- GDP will contract 5% in the calendar year December 2019 to December 2020 and the model is driven by this contraction of 5% year on year. GDP growth will then be held flat until June 2021 and thereafter reverting to underlying pre-Pandemic levels of circa 2% year on year.

The Downside scenario is set relative to the Base scenario based on 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 $18,084,000 compared to $19,165,000 provision for impairment recognised as at 30 June 2020. 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 $25,898,000.

COVID-19 Support measures

The Group has introduced a number of support measures for members impacted by COVID-19, which includes loan repayment deferrals for retail and commercial members. The compound interest is capitalised during the repayment pause, and after the repayment pause, the minimum monthly repayments will be 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.

Year Ended 30 June 2020			Consolidated		
	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
(b) OTHER FINANCIAL ASSETS HELD AT AC					
Balance as at 30 June 2018	-	-	-	-	-
Restated for adoption of new accounting standards	1,746	-	-	-	1,746
Changes due to financial assets recognised in the opening balances that have:					
Transferred to Lifetime EC L - credit impaired - specific provision	(1,746)	-	-	1,746	-
Charge to income statement from continuing operations	-	-		2,000	2,000
Balance as at 30 June 2019	-	-	-	**3,746**	**3,746**
Charge to income statement from continuing operations	-	-	-	**3,000**	**3,000**
Balance at 30 June 2020	-	-	-	**6,746**	**6,746**

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 $6,746,000 exists against this loan.

Notes to the Financial Statements

14 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (continued)

Year Ended 30 June 2020 — **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 2018	-	-	-	**4,551**	**4,551**
Restated for adoption of new accounting standards	1,267	612	852	4,551	7,282
Changes due to financial assets recognised in the opening balances that have:					
Transferred to 12-months ECL	454	(269)	(163)	(22)	-
Transferred to Lifetime ECL - not credit impaired	(58)	113	(46)	(9)	-
Transferred to Lifetime ECL - credit impaired - collective provision	(26)	(81)	107	-	-
Transferred to Lifetime ECL - credit impaired - specific provision	(9)	(13)	(38)	60	-
Bad debts written off	-	-	-	(2,722)	(2,722)
Charge to income statement from continuing operations	(51)	318	208	1,077	1,552
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 at 30 June 2020	**11,671**	**1,351**	**1,587**	**4,556**	**19,165**

The table includes the allocation of the undrawn credit commitments.

Notes to the Financial Statements

14 MOVEMENT OF EXPECTED CREDIT LOSS PROVISION (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
	$000	$000	$000	$000	$000
(d) DUE FROM/TO CONTROLLED ENTITIES					
Balance as at 30 June 2018	-	-	-	-	-
Restated for adoption of new accounting standards	1,871	-	-	-	1,871
Changes due to financial assets recognised in the opening balances that have:					
Transferred to Lifetime ECL - credit impaired - specific provision	(1,823)	-	-	1,823	-
Charge to income statement from continuing operations	(48)	-	-	2,000	1,952
Balance as at 30 June 2019	**-**	**-**	**-**	**3,823**	**3,823**
Charge to income statement from continuing operations	-	-	-	2,923	2,923
Balance at 30 June 2020	**-**	**-**	**-**	**6,746**	**6,746**

Due from/to controlled entities includes intercompany receivable from the Bank to P&N Landreach Pty Ltd. A total specific provision of $6,746,000 has been raised against this intercompany receivable.

Notes to the Financial Statements

15 DERIVATIVE FINANCIAL INSTRUMENTS

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020 Fair value $000	2019 Fair value $000	**2020 Fair value $000**	2019 Fair value $000
(i) Fair value				
Derivative financial assets				
Interest rate swaps - fair value through profit and loss - assets	**31**	94	**31**	94
Interest rate swaps - held as cash flow hedges - assets	**354**	-	**354**	-
	385	94	**385**	94
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**32**	103	**-**	-
Interest rate swaps - held as cash flow hedges - liabilities	**698**	449	**698**	449
	730	552	**698**	449

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020 Notional Amount $000	2019 Notional Amount $000	**2020 Notional Amount $000**	2019 Notional Amount $000
(ii) Notional amount				
Derivative financial assets				
Interest rate swaps - fair value through profit and loss - assets	**2,514**	14,696	**2,514**	14,696
Interest rate swaps - held as cash flow hedges - assets	**25,000**	-	**25,000**	-
	27,514	14,696	**27,514**	14,696
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**2,514**	14,696	**-**	-
Interest rate swaps - held as cash flow hedges - liabilities	**60,000**	37,000	**60,000**	37,000
	62,514	51,696	**60,000**	37,000

(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 income statement.

The Group pays fixed interest on swaps with a notional amount of $62,514,000 (2019: $51,696,000), on which it pays 0.43% to 2.50% interest (2019: 1.80% to 3.23%) 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 $60,000,000 (2019: $37,000,000), on which it pays 0.43% to 2.08% interest (2019: 1.95% to 3.23%) and receives interest calculated at a variable rate on the notional amount.

The Group receives fixed interest on swaps with a notional amount of $27,514,000 (2019: $14,696,000), on which it receives 0.23% to 2.46% interest (2019: 1.73% 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 $27,514,000 (2019: $14,696,000), on which it receives 0.23% to 2.46% interest (2019: 1.73% 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 income statement when the hedged forecast transaction occurs. Underlying cash flows from cash flow hedges are discounted to calculate deferred gains and losses which are expected to occur during the life of the cash flow hedge.

Notes to the Financial Statements

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Terms and conditions (continued)

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Maturity period				
Less than one year	**-**	240	**-**	240
More than one year but less than two years	**241**	127	**241**	127
More than two years but less than five years	**62**	54	**62**	54
Net deferred losses	**303**	421	**303**	421

(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.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
16 DUE FROM/TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	**-**	-	**30,520**	29,749
Deferred securitisation receivable	**-**	-	**70,305**	21,239
	-	-	**100,825**	50,988
Expected credit loss provision	**-**	-	**(6,746)**	(3,823)
	-	-	**94,079**	47,165
Expected credit loss provision				
Opening balance	**-**	-	**3,823**	-
Change on transition to AASB 9	**-**	-	**-**	1,871
Expected credit loss provision provided for during the year	**-**	-	**2,923**	1,952
Closing balance	**-**	-	**6,746**	3,823
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	**-**	-	**317,513**	391,761
	-	-	**317,513**	391,761

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

As at 30 June 2020, 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 Pinnacle Series Trust 2014-SST were $1,579,696,000 (2019: $813,761,000) and the gross amounts from Pinnacle Series Trust 2014-SST were $1,650,000,000 (2019: $835,000,000).

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

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
17 PROPERTY AND EQUIPMENT				
Land and buildings				
At fair value	**8,756**	-	**7,360**	-
Accumulated depreciation	**(82)**	-	**(75)**	-
	8,674	-	**7,285**	-
Leasehold improvements				
At cost	**18,852**	14,981	**18,852**	14,981
Accumulated depreciation	**(7,388)**	(5,275)	**(7,388)**	(5,275)
	11,464	9,706	**11,464**	9,706
Equipment				
At cost	**9,981**	7,352	**9,937**	7,206
Accumulated depreciation	**(3,510)**	(2,032)	**(3,488)**	(1,931)
	6,471	5,320	**6,449**	5,275
Total property and equipment	**26,609**	15,026	**25,198**	14,981

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

Year Ended 30 June 2020	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 2018	-	3,287	1,669	4,956	-	3,287	1,628	4,915
Additions	-	8,349	4,672	13,021	-	8,349	4,633	12,982
Disposals	-	(171)	(103)	(274)	-	(171)	(96)	(267)
Depreciation expense	-	(1,759)	(918)	(2,677)	-	(1,759)	(890)	(2,649)
Carrying amount at 30 June 2019	-	9,706	5,320	15,026	-	9,706	5,275	14,981
Carrying amount at 1 July 2019	**-**	**9,706**	**5,320**	**15,026**	**-**	**9,706**	**5,275**	**14,981**
Addition through acquisition	**9,390**	**2,673**	**1,313**	**13,376**	**9,390**	**2,673**	**1,313**	**13,376**
Additions	**1,396**	**1,298**	**1,542**	**4,236**	**-**	**1,298**	**1,542**	**2,840**
Disposals	**(2,015)**	**(100)**	**(57)**	**(2,172)**	**(2,015)**	**(100)**	**(57)**	**(2,172)**
Depreciation expense	**(97)**	**(2,113)**	**(1,647)**	**(3,857)**	**(90)**	**(2,113)**	**(1,624)**	**(3,827)**
Carrying amount at 30 June 2020	**8,674**	**11,464**	**6,471**	**26,609**	**7,285**	**11,464**	**6,449**	**25,198**

Notes to the Financial Statements

17 (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 2020	Consolidated		Police & Nurses Limited	
	2020 $000	2019 $000	**2020 $000**	2019 $000
At cost	**10,786**	-	**9,390**	-
Accumulated depreciation	**(97)**	-	**(90)**	-
Disposal	**(2,015)**	-	**(2,015)**	-
Net book value	**8,674**	-	**7,285**	-

18 LEASES

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

(i) Amount recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020 $000	2019 $000	**2020 $000**	2019 $000
Right-of-use assets				
Buildings	**30,389**	-	**30,389**	-
Net book value	**30,389**	-	**30,389**	-
Lease liabilities	**35,203**	-	**35,203**	-
	35,203	-	**35,203**	-

Additional Right-of-use assets and lease liabilities were taken on from BCCU Ltd as part of the acquisition.

(ii) Amount recognised in the income statement

The income statement shows the following amounts relating to leases:

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020 $000	2019 $000	**2020 $000**	2019 $000
Depreciation charge of right-of-use assets (buildings)	**4,991**	-	**4,991**	-
Interest expense (included in finance cost)	**627**	-	**627**	-
Expense relating to outgoings not included in lease liabilities (included in other general and administration costs)	**861**	-	**861**	-
Total expenses related to leases	**6,479**	-	**6,479**	-

Notes to the Financial Statements

19 INVESTMENTS IN CONTROLLED ENTITIES

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

Year Ended 30 June 2020	Consolidated			
	Interests in Controlled Entities		Value of Investment in Controlled Entities	
			Held by the Bank	Held by the Bank
	2020	2019	**2020**	2019
	%	%	**$**	$
Members Holding Company Pty Ltd	**100**	100	**73,773**	73,773
P&N Landreach Pty Ltd	**100**	100	**2,000,010**	2,000,010
Essential Service Homes Pty Ltd (deregistered on 29/7/2020)	**-**	100	**-**	10,000
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	**2,550,080**	2,550,080
P&N Recruitment Pty Ltd	**100**	-	**100**	-
Pinnacle RMBS Warehouse Trust No 1	**100**	100	**-**	-
Pinnacle Series Trust 2013 - T1	**100**	100	**-**	-
Pinnacle Series Trust 2014 - SST	**100**	100	**-**	-
Pinnacle Series Trust 2017 - T1	**100**	100	**-**	-
			4,745,463	4,755,363

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
20 INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
	1,572	1,572	**-**	-
Computer Software (ii)				
At cost	**16,690**	14,640	**16,690**	14,640
Accumulated amortisation	**(11,380)**	(8,982)	**(11,380)**	(8,982)
	5,310	5,658	**5,310**	5,658
Total intangible assets	**6,882**	7,230	**5,310**	5,658
Reconciliation of the carrying amounts of each class of intangible assets				
(i) Goodwill				
Opening carrying amount	**1,572**	1,572	**-**	-
Closing carrying amount	**1,572**	1,572	**-**	-
(ii) Computer software				
Opening carrying amount	**5,658**	5,939	**5,658**	5,939
Additions	**2,053**	2,083	**2,053**	2,083
Amortisation charge *	**(2,401)**	(2,364)	**(2,401)**	(2,364)
Closing carrying amount	**5,310**	5,658	**5,310**	5,658

* The amortisation charge is included in depreciation and amortisation in the income statement.

(a) Impairment test for goodwill

Goodwill acquired is in relation to Police & Nurses Financial Planning Pty Ltd. The recoverable value of the goodwill is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

(b) Key assumptions used for value-in-use calculations

Management determined value-in-use based on past performance and its expectations for the future which reflect specific risks faced by Police & Nurses Financial Planning Pty Ltd.

The value is calculated by discounting expected future cash flows based on the following assumptions:

(i) cash flow forecasts for the next 5 years;

(ii) discount rate of 12.5% (2019: 13.5%) per annum pre-tax; and

(iii) current prevailing economic conditions.

(c) Impact of possible changes in key assumptions

Management has considered significant changes to the key assumptions identified in (b) and is comfortable that no impairment would be triggered by any such changes.

(d) Impairment charge

The impairment tests for goodwill determined no charge for impairment was required.

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
21 DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Provisions for impairment on loans and other receivables	**7,884**	3,023	**7,989**	3 ,046
Derivative	**192**	105	**192**	105
Property and equipment	**85**	72	**74**	61
Intangible assets	**325**	77	**325**	77
Lease liabilities	**10,561**	-	**10,561**	-
Provisions	**2,295**	1,221	**2,227**	1,144
Accruals	**152**	301	**123**	257
Other	**892**	317	**892**	308
	22,386	5,116	**22,383**	4,998
Tax Losses carried forward	**-**	-	**-**	-
Offset from/to deferred tax liabilities (note 26)	**(10,891)**	(1,403)	**(10,604)**	(1,083)
Net deferred tax assets	**11,495**	3,713	**11,779**	3,915
Movements:				
Opening balance	**5,116**	3,620	**4,999**	3,452
Change on transition to AASB 9	**-**	1,410	**-**	1,446
Change on transition to AASB 16	**1,184**	-	**1,184**	-
Adjusted opening balance	**6,300**	5,030	**6,183**	4,898
Addition through acquisition	**5,461**	-	**5,461**	-
(Charged)/credited to the income statement (note 5)	**10,037**	(28)	**10,149**	(9)
Charged to equity (note 5) & (note 27(c))	**(39)**	109	**(39)**	109
Other	**627**	5	**629**	1
Closing balance	**22,386**	5,116	**22,383**	4,999
Unrecognised temporary differences:				
Valuation of financial instruments for which deferred tax assets have not been recognised:	**600**	600	**-**	-
	600	600	**-**	-

In financial year 2019 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 unrecognised temporary difference.

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
22 MEMBERS' DEPOSITS				
Call deposits	**2,360,650**	1,229,160	**2,362,625**	1,229,812
Term deposits *	**2,567,239**	1,946,403	**2,567,238**	1,946,403
Retirement savings account deposits	**35,109**	-	**35,109**	-
Withdrawable shares	**1,143**	898	**1,143**	898
	4,964,141	3,176,461	**4,966,115**	3,177,113

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 34.

* 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 were $3,653,000 higher than the carrying value. In financial year 2019 the fair value of the Members' deposits did not significantly vary from the carrying value.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	Number of shares	Number of shares	**Number of shares**	Number of shares
(a) Members' shares				
Number of $10 shares (fully paid)	**111,505**	86,248	**111,505**	86,248
Number of $10 shares (partially paid $6)	**4,279**	4,384	**4,279**	4,384
Number of $10 shares (partially paid $2)	**1,132**	-	**1,132**	-
Number of $0 shares	**598**	616	**598**	616
Number of $10 on-call shares	**34,793**	5,223	**34,793**	5,223
	152,307	96,471	**152,307**	96,471
Movements:				
Opening number of shares	**96,471**	92,107	**96,471**	92,107
Additions through acquisition	**51,645**	-	**51,645**	-
New shares issued during the year	**10,985**	7,531	**10,985**	7,531
Resignations during the year	**(6,794)**	(3,167)	**(6,794)**	(3,167)
Closing balance	**152,307**	96,471	**152,307**	96,471

From 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 merger, 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.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
23 OTHER PAYABLES				
Other payables	**11,033**	14,469	**10,967**	14,067
	11,033	14,469	**10,967**	14,067

Other payables are normally settled within 12 months.

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
24 BORROWINGS				
Secured by home loan portfolios	**304,189**	386,010	**-**	-
Unsecured	**354,071**	395,413	**354,071**	395,413
Term Funding Facility	**59,986**	-	**59,986**	-
	718,246	781,423	**414,057**	395,413

As at 30 June 2020, the Bank has drawn down $59,986,000 against the RBA Term Funding Facility (notes 16 and 30).

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

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
25 PROVISIONS				
Employee benefits (a)	**7,188**	4,071	**6,959**	3,814
Make good (b)	**463**	-	**463**	-
	7,651	4,071	**7,422**	3,814

(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.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Provision for employee benefits				
Opening balance	**4,071**	3,791	**3,814**	3,562
Addition through acquisition	**2,253**	-	**2,253**	-
Employee benefits previously provided for paid out	**(663)**	(314)	**(602)**	(340)
Employee benefits provided for during the year	**1,527**	594	**1,494**	592
Closing balance	**7,188**	4,071	**6,959**	3,814

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

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Provision for employee benefits				
Within the next 12 months	**5,584**	3,273	**5,418**	3,059
Between one and two years	**360**	138	**360**	138
Later than two years	**1,244**	660	**1,180**	617
	7,188	4,071	**6,958**	3,814

Notes to the Financial Statements

25 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 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Opening balance	**-**	420	**-**	420
Addition through acquisition	**487**	-	**487**	-
Adjustment to the provision	**(24)**	(796)	**(24)**	(796)
Make good provided for during the year	**-**	376	**-**	376
Closing balance	**463**	-	**463**	-

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

The Group expects the make good provisions to be paid out in less than one year.

26 DEFERRED TAX LIABILITIES

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
The balance comprises temporary differences attributable to:				
Financial assets at FVOCI	**1,146**	1,083	**1,146**	1,083
Receivables	**279**	320	**-**	-
Derivative	**108**	-	**108**	-
Property and equipment	**738**	-	**738**	-
Right-of-use-assets	**8,198**	-	**8,198**	-
Other	**422**	-	**414**	-
	10,891	1,403	**10,604**	1,083
Offset to/from deferred tax assets (note 21)	**(10,891)**	(1,403)	**(10,604)**	(1,083)
Net deferred tax liabilities	**-**	-	**-**	-
Movements:				
Opening balance	**1,403**	1,560	**1,083**	1,112
Addition through acquisition	**2,842**	-	**2,842**	-
Credited to the income statement (note 5)	**6,617**	(157)	**6,650**	(29)
Other	**29**	-	**29**	-
Closing balance	**10,891**	1,403	**10,604**	1,083

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
27 MEMBERS' FUNDS				
Reserves				
General reserve (a)	**220,000**	220,000	**220,000**	220,000
Share capital reserve (b)	**1,680**	884	**1,680**	884
Cash flow hedge reserve (c)	**(201)**	(295)	**(201)**	(295)
Financial asset held at FVOCI reserve (d)	**527**	527	**2,527**	2,527
	222,006	221,116	**224,006**	223,116
Retained earnings				
Balance at beginning of year	**68,887**	61,884	**67,189**	60,904
Change on transition to AASB 9	**-**	(3,284)	**-**	(3,373)
Change on transition to AASB 16 (1(af))	**(380)**	-	**(380)**	-
Adjusted balance at beginning of year	**68,507**	58,600	**66,809**	57,531
Profit for the year	**3,173**	10,316	**3,561**	9,687
Total available for appropriation	**71,680**	68,916	**70,370**	67,218
Amount transferred to share capital reserve (b)	**(34)**	(29)	**(34)**	(29)
Balance at end of year	**71,646**	68,887	**70,336**	67,189
Contributed equity				
Balance at beginning of year	**-**	-	**-**	-
Addition through acquisition	**150,719**	-	**150,719**	-
Balance at end of year	**150,719**	-	**150,719**	-

(a) General reserve

The general reserve represents an historical transfer from retained earnings.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
(b) Share capital reserve				
Balance at beginning of year	**884**	855	**884**	855
Addition through acquisition	**762**	-	**762**	-
Transfer from retained profits	**34**	29	**34**	29
Balance at end of year	**1,680**	884	**1,680**	884

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

27 MEMBERS' FUNDS (continued)

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
(c) Cash flow hedge reserve				
Balance at beginning of year	**(295)**	(40)	**(295)**	(40)
New cash flow hedges	**4**	(334)	**4**	(334)
Revaluation of cash flow hedge instruments	**21**	(59)	**21**	(59)
Cash flow hedges recycled to income statement	**96**	24	**96**	24
Ineffective gains recognised in the income statement	**12**	5	**12**	5
Income tax on revaluation (note 21)	**(39)**	109	**(39)**	109
Changes in the fair value of cash flow hedges, net of tax	**94**	(255)	**94**	(255)
Balance at end of year	**(201)**	(295)	**(201)**	(295)

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 hedged transaction affects profit or loss.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
(d) Financial assets held at FVOCI reserve				
Balance at beginning of year	**527**	2,527	**2,527**	2,527
Change in fair value	**-**	(2,000)	**-**	-
Balance at end of year	**527**	527	**2,527**	2,527

The reserve is used to record gains and losses resulting from movement in the fair value of Financial assets held at FVOCI (note 8).

During financial year 2019 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.

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000

28 NOTES TO THE CASH FLOW STATEMENTS

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

	2020 $000	2019 $000	**2020 $000**	2019 $000
Profit after income tax	**3,201**	10,369	**3,561**	9,687
Depreciation and amortisation	**11,261**	5,041	**11,232**	5,013
Credit impairment loss	**13,291**	3,555	**13,214**	3,507
Bad debts recovered	**(386)**	(364)	**(386)**	(364)
Loss on disposal of property and equipment	**3**	367	**3**	381
Dividend received	**(466)**	(287)	**(327)**	(120)
Increase/(decrease) in provisions	**851**	(206)	**879**	(169)
Decrease/(increase) in investment	**198**	-	**5**	(2,000)
Increase in loans	**(17,037)**	(129,939)	**(17,037)**	(129,979)
(Decrease)/increase in other financial institutions	**(63,177)**	(83,153)	**18,644**	35,514
Decrease in loan interest receivable	**-**	106	**-**	106
Increase in interest earning deposit	**(117,200)**	(39,702)	**(117,200)**	(39,702)
Decrease/(increase) in other receivables	**589**	2,162	**(27)**	(1,223)
Increase/(decrease) in member deposits	**228,489**	206,090	**229,830**	206,123
Decrease in member interest payable	**-**	(12,063)	**-**	(12,063)
(Decrease)/increase in interest rate swaps	**(362)**	16	**(291)**	2
(Decrease)/increase in accrued expenses and other payables	**(15,571)**	6,319	**(14,935)**	7,798
Increase/(decrease) in current tax liabilities	**914**	(2,921)	**970**	(2,977)
Increase in deferred tax asset	**(15,290)**	(1,529)	**(3,717)**	(1,481)
Increase/(decrease) in deferred tax liabilities	**11,654**	(26)	**5**	-
(Increase)/decrease in sundry debtors and prepayments	**(746)**	583	**(775)**	627
Net cash inflow/(outflow) from operating activities	**40,216**	(35,582)	**123,648**	78,680

(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 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Net debt				
Cash and cash equivalents	**183,923**	91,369	**110,489**	57,227
Borrowings - repayable within one year (including overdraft)	**(427,759)**	(494,075)	**(354,071)**	(395,413)
Borrowings - repayable after one year	**(290,487)**	(287,348)	**(59,986)**	-
Net Debt	**(534,323)**	(690,054)	**(303,568)**	(338,186)
Cash and liquid investments	**183,923**	91,369	**110,489**	57,227
Gross debt - fixed interest rates	**(414,057)**	(395,413)	**(414,057)**	(395,413)
Gross debt - variable interest rates	**(304,189)**	(386,010)	**-**	-
Net Debt	**(534,323)**	(690,054)	**(303,568)**	(338,186)

Notes to the Financial Statements

28 NOTES TO THE CASH FLOW STATEMENTS (continued)

Year Ended 30 June 2020	Other assets	Liabilities from financing activities		
	Cash	Borrowings due < 1 year	Borrowings due > 1 year	Total
	$000	$000	$000	$000
Consolidated				
Net debt as at 1 July 2018	141,244	(508,494)	(356,081)	(723,331)
Cash flows	(49,875)	14,419	68,733	33,277
Net debt as at 30 June 2019	91,369	(494,075)	(287,348)	(690,054)
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)**
Police & Nurses Limited				
Net debt as at 1 July 2018	92,865	(359,899)	-	(267,034)
Cash flows	(35,638)	(35,514)	-	(71,152)
Net debt as at 30 June 2019	57,227	(395,413)	-	(338,186)
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)**

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
29 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	**2,855**	1,281	**2,855**	1,281
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
- not later than one year	**-**	3,882	**-**	3,882
- later than one year and not later than five years	**-**	13,024	**-**	13,024
- later than five years	**-**	12,843	**-**	12,843
Aggregate lease expenditure contracted for at balance sheet date	**-**	29,749	**-**	29,749
(c) Variable rental outgoings				
- not later than one year	**1,066**	1,054	**1,066**	1,054
- later than one year and not later than five years	**3,613**	3,470	**3,613**	3,470
- later than five years	**3,585**	3,605	**3,585**	3,605
Aggregate contractual obligation for future variable outgoings - not recognised as a liability	**8,264**	8,129	**8,264**	8,129

Significant leasing arrangements

As at 30 June 2019, the Bank has a leasing arrangement in place for its new head office at 556 Wellington Street, Perth. The lease expires on 30 November 2029, with one option of renewal for a further five (5) year term.

Notes to the Financial Statements

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
30 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
Credit related commitments approved but undrawn loans and credit limits	**572,531**	358,855	**572,531**	358,855

The Bank has significant service contracts with Cuscal Limited, ASL, 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 2020).
- 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 2020).
- lodged a settlement security deposit of $6,048,100 under the Standard Terms and Conditions.

The Bank has been granted a secured term funding facility (TFF) by the RBA for the amount of $153,127,000. The TFF is a 3-year fixed rate facility priced at 0.25%, drawable up to the end of September 2020. As at 30 June 2020, the Bank has drawn down $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 $1,341,000. Management and Directors are not aware of any claims, either current or pending, in relation to those guarantees.

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$	$	**$**	$
31 KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**4,348,881**	3,351,144	**4,348,881**	3,351,144
Short-term employee benefits	**4,055,069**	3,109,658	**4,055,069**	3,109,658
Post-employment benefits	**289,390**	241,486	**289,390**	241,486
Termination benefits	**4,422**	-	**4,422**	-
	4,348,881	3,351,144	**4,348,881**	3,351,144

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 2020	Police & Nurses Limited	
	2020	2019
31 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)	$	$
Loans outstanding to key management personnel and their related entities:		
Total loans	**7,274,611**	7,263,149
Of which, loans under normal member terms and conditions	**5,298,314**	5,271,152
Loan advances	**1,853,595**	3,230,934
Loan repayments	**1,227,861**	629,126
Interest on loans	**134,277**	125,858
Loans outstanding to key management personnel and their related entities:		
Total discounted loans	**1,976,297**	1,991,997
Of which, unsecured loan balance	**(2,913)**	(258)
Loan advances	**299,000**	348,484
Loan repayments	**439,845**	474,922
Interest on loans	**43,526**	65,247
Outstanding deposits held by key management personnel and their related entities:		
Balance of deposits	**2,457,490**	4,480,621
Additional deposits	**8,172,415**	7,926,011
Withdrawals	**9,597,064**	7,407,295
Interest on deposits	**28,802**	74,782

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	2020	2019
	$000	$000	$000	$000
32 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 - PricewaterhouseCoopers				
- statutory financial reports audit services	**313**	264	**313**	264
- other assurance services	**182**	187	**126**	125
	495	451	**439**	389
Other auditors				
- statutory financial reports audit services	**11**	15	**-**	-
	506	466	**439**	389
(b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
- taxation advice	**120**	93	**114**	93
- consulting	**50**	-	**50**	-
	170	93	**164**	93
Total auditor's remuneration	**676**	559	**603**	482

Notes to the Financial Statements

33 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. In financial year 2019, all intercompany balances, except for balances with securitisation trusts and with P&N Landreach Pty Ltd, are non-interest bearing. In financial year 2020 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 12 and note 16). Other balances with related entities are recorded in note 16.

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

Year Ended 30 June 2020	Police & Nurses Limited	
	2020	2019
	$000	$000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the Group:		
Interest revenue	**19,360**	27,602
Interest expense	**31,838**	45,132
Securitisation service fee revenue	**4,979**	4,747
Dividend revenue	**290**	344
Other income	**544**	541
Aggregate amounts receivable from entities in the Group at balance sheet date	**94,079**	47,165
Aggregate amounts payable to entities in the Group at balance sheet date	**317,513**	391,761

34 FINANCIAL RISK MANAGEMENT

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

- market risk
- liquidity risk
- credit risk

The Board of Directors have 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 polices, and monitors and reports to the Board on new and emerging risks.

The Risk Committee also monitors management compliance with the Bank's and 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 Bank and 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 Bank's and Group's activities. The Bank and Group, through their training and management standards and procedures, aim to maintain a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

Notes to the Financial Statements

34 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 manages market risk exposures against limits through its Asset-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 periods. Market risk exposures are governed by the Market Risk Management Policy and monitored on an ongoing basis with annual policy reviews by the Board.

Significant policies and 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 periods;
- 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

34 FINANCIAL RISK MANAGEMENT (continued)

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

Interest rate sensitivity analysis

The Group analyses interest rate sensitivity on both an Earnings at Risk and Cost at Risk basis.

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

Year Ended 30 June 2020	Consolidated				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2020					
Cash and cash equivalents	**183,923**	**1,694**	**-**	**(356)**	**-**
Due from 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)**
2019					
Cash and cash equivalents	91,369	872	-	(802)	-
Due from financial institutions	437,674	3,687	-	(3,687)	-
Loans and advances	3,674,715	33,598	-	(33,598)	-
Derivatives financial instruments	(458)	-	413	-	(422)
Members' deposits	(3,176,461)	(23,865)	-	23,865	-
Borrowings	(781,423)	(6,458)	-	6,458	-
Total increase/(decrease)	245,416	7,834	413	(7,764)	(422)

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2020	Police & Nurses Limited				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2020					
Cash and cash equivalents	**110,489**	**1,003**	**-**	**(183)**	**-**
Due from 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**	**77,686**	**(189)**
2019					
Cash and cash equivalents	57,227	543	-	(473)	-
Due from financial institutions	437,674	3,687	-	(3,687)	-
Loans and advances	3,674,715	33,598	-	(33,598)	-
Derivatives financial instruments	(355)	261	413	(257)	(422)
Members' deposits	(3,177,113)	(23,865)	-	23,865	-
Borrowings	(395,413)	(3,173)	-	3,167	-
Due to controlled entities	(391,761)	(3,860)	-	3,860	-
Total increase/(decrease)	204,974	7,191	413	(7,123)	(422)

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Fair value of interest rate swaps				
Fair value estimation - interest rate swaps - asset	**385**	94	**385**	94
Fair value estimation - interest rate swaps - (liability)	**(730)**	(552)	**(698)**	(449)

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 Group 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 Group 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.

(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 manages its liquidity risk through 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 and monitored on an ongoing basis 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 $3,000,000 (2019: $3,000,000) of overdraft facility with Cuscal. This facility was undrawn as at 30 June 2020.

Liquidity support is available in the form of $1,250,000 (2019: NIL) of overdraft facility with Indue. This facility was undrawn as at 30 June 2020.

Also maintained by the Group are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of $125,000,000 (2019: $125,000,000), of which $51,312,000 (2019: $26,338,000) was available at 30 June 2020; and
- a self-securitisation facility under the Pinnacle Series Trust 2014-SST of $1,650,000,000 (2019: $835,000,000). The A Notes (AAA rated) of $1,465,000,000 (2019: $740,000,000) 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 16).

The Group and the Bank had access to the following undrawn borrowing facilities as at 30 June 2020:

Year Ended 30 June 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
	$000	$000	**$000**	$000
Floating rate				
Expiring within one year (overdraft facilities)	**4,250**	3,000	**4,250**	3,000
	4,250	3,000	**4,250**	3,000

Notes to the Financial Statements

34 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 2020 — **Consolidated**

	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	More than 5 years $000	Total $000
Maturities of financial liabilities						
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**
2019						
Borrowings	-	276,077	217,998	51,634	235,714	781,423
Members' deposits	1,229,160	1,177,763	700,322	69,216	-	3,176,461
Derivative financial instruments	-	14	95	443	-	552
	1,229,160	1,453,854	918,415	121,293	235,714	3,958,436

Year Ended 30 June 2020 — **Police & Nurses Limited**

	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	More than 5 years $000	Total $000
Maturities of financial liabilities						
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**
2019						
Borrowings	-	276,076	119,337	-	-	395,413
Members' deposits	1,229,812	1,177,763	700,322	69,216	-	3,177,113
Derivative financial instruments	-	14	95	340	-	449
	1,229,812	1,453,853	819,754	69,556	-	3,572,975

Notes to the Financial Statements

34 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 tolerance 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 Bank maintains policies, credit decision-making systems and processes to ensure appropriate analysis is undertaken to mitigate credit risk.

To determine credit quality, the Bank has implemented a credit risk grading system. The credit risk grading system highlights changes in the Bank'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 closely aligned to the Basel Standardised approach to credit risk. Within the commercial loan portfolio each exposure 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 Bank 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 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

34 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 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.

Forward looking information

A key component of the expected credit loss modelling used to calculate the collective provision is to incorporate a forward-looking view of the macro-economic environment. The model includes 2 macro-economic factors being GDP and Unemployment rate, which our analysis determined is most closely correlated with credit losses. The Group applies three alternative, 5-year macro-economic scenarios (Base, Upside and Downside scenarios) in the model to reflect unbiased probability-weighted range of possible future outcomes in estimating ECL.

Notes to the Financial Statements

34 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 a standard eligible mortgage or non-standard eligible mortgages under Basel II 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 a standard eligible mortgage or non-standard eligible mortgages under Basel II 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 a standard eligible mortgage or non-standard eligible mortgages under Basel II 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 Basel II.
  - Unsecured, partially secured or 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 Basel II.
  - 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

34 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**	**20,976**	**41,483**	**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

34 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2019	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	91,369	-	-	-	91,369
Receivables due from financial institutions	437,894	-	-	-	437,894
Loans and advances	3,199,402	22,812	11,578	-	3,233,792
Undrawn credit commitments	279,558	8	-	-	279,566
Total Low	**4,008,223**	**22,820**	**11,578**	**-**	**4,042,621**
Sound (Internal risk grade 2)					
Loans and advances	307,382	1,954	4,330	-	313,666
Undrawn credit commitments	25,348	-	-	-	25,348
Total Sound	**332,730**	**1,954**	**4,330**	**-**	**339,014**
Stable (Internal risk grade 3)					
Loans and advances	15,225	56	2,224	6,148	23,653
Undrawn credit commitments	434	-	-	-	434
Total Stable	**15,659**	**56**	**2,224**	**6,148**	**24,087**
Moderate (Internal risk grade 4)					
Loans and advances	51,762	399	-	175	52,336
Total Moderate	**51,762**	**399**	**-**	**175**	**52,336**
Acceptable (Internal risk grade 5)					
Loans and advances	52,018	622	-	226	52,866
Undrawn credit commitments	53,404	84	-	19	53,507
Total Acceptable	**105,422**	**706**	**-**	**245**	**106,373**
Managed (Internal risk grade 6)					
Other financial assets held at AC	-	-	-	28,347	28,347
Loans and advances	-	-	4,514	-	4,514
Total Managed	**-**	**-**	**4,514**	**28,347**	**32,861**
Total	**4,513,796**	**25,935**	**22,646**	**34,915**	**4,597,292**
Financial assets by ECL stage					
Cash and cash equivalents	91,369	-	-	-	91,369
Receivables due from financial institutions	437,894	-	-	-	437,894
Other financial assets held at AC	-	-	-	28,347	28,347
Loans and advances	3,625,789	25,843	22,646	6,549	3,680,827
Off-balance Sheet					
Undrawn credit commitments	358,744	92	-	19	358,855
Total financial instruments by ECL stage	**4,513,796**	**25,935**	**22,646**	**34,915**	**4,597,292**

Notes to the Financial Statements

34 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**	**20,976**	**43,542**	**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

34 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2019	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	57,227	-	-	-	57,227
Receivables due from financial institutions	437,894	-	-	-	437,894
Other financial assets held at AC	367	-	-	-	367
Loans and advances	3,199,402	22,812	11,578	-	3,233,792
Due from controlled entities	21,239	-	-	-	21,239
Undrawn credit commitments	279,558	8	-	-	279,566
Total Low	**3,995,687**	**22,820**	**11,578**	**-**	**4,030,085**
Sound (Internal risk grade 2)					
Loans and advances	307,382	1,954	4,330	-	313,666
Undrawn credit commitments	25,348	-	-	-	25,348
Total Sound	**332,730**	**1,954**	**4,330**	**-**	**339,014**
Stable (Internal risk grade 3)					
Loans and advances	15,225	56	2,224	6,148	23,653
Undrawn credit commitments	434	-	-	-	434
Total Stable	**15,659**	**56**	**2,224**	**6,148**	**24,087**
Moderate (Internal risk grade 4)					
Loans and advances	51,762	399	-	175	52,336
Total Moderate	**51,762**	**399**	**-**	**175**	**52,336**
Acceptable (Internal risk grade 5)					
Loans and advances	52,018	622	-	226	52,866
Undrawn credit commitments	53,404	84	-	19	53,507
Total Acceptable	**105,422**	**706**	**-**	**245**	**106,373**
Managed (Internal risk grade 6)					
Loans and advances	-	-	4,514	-	4,514
Due from controlled entities	-	-	-	29,749	29,749
Total Managed	**-**	**-**	**4,514**	**29,749**	**34,263**
Total	**4,501,260**	**25,935**	**22,646**	**36,317**	**4,586,158**
Financial assets by ECL stage					
Cash and cash equivalents	57,227	-	-	-	57,227
Receivables due from financial institutions	437,894	-	-	-	437,894
Other financial assets held at AC	367	-	-	-	367
Loans and advances	3,625,789	25,843	22,646	6,549	3,680,827
Due from controlled entities	21,239	-	-	29,749	50,988
Undrawn credit commitments	358,744	92	-	19	358,855
Total financial instruments by ECL stage	**4,501,260**	**25,935**	**22,646**	**36,317**	**4,586,158**

Notes to the Financial Statements

34 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 are secured by registered mortgages over residential properties. Lenders mortgage insurance contracts are entered as part of the Bank'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 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	11	**28,461**	**(6,746)**	**21,715**	**-**	**20,807**
Loans and advances [(i)]	13	**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	30	**572,531**	**(3,035)**	**569,496**	**-**	**-**
Maximum credit exposure		**6,688,551**	**(26,628)**	**6,661,923**	**88,197**	**9,915,241**

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

Year Ended 30 June 2019 — **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	91,369	-	91,369	-	-
Receivables due from financial institutions	7	437,894	(220)	437,674	-	-
Other financial assets held at AC	11	28,347	(3,746)	24,601	-	22,022
Loans and advances [(i)]	13	3,680,827	(5,834)	3,674,993	35,733	7,038,328
- Home loans		3,534,560	(4,465)	3,530,095	-	6,671,534
- Secured overdrafts		32,552	(60)	32,492		275,672
- Personal loans		34,088	(523)	33,565	35,716	-
- Overdraft & credit cards		36,749	(582)	36,167	17	-
- Commercial & property finance		42,878	(204)	42,674	-	91,122
Total		4,238,437	(9,800)	4,228,637	35,733	7,060,350
Off-Balance Sheet						
Undrawn credit commitments	30	358,855	(278)	358,577	-	-
Maximum credit exposure		4,597,292	(10,078)	4,587,214	35,733	7,060,350

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

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

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

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	11	179	-	179	-	-
Loans and advances (i)	13	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
Due from controlled entities	16	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	30	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.

Year Ended 30 June 2019 — **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	57,227	-	57,227	-	-
Receivables due from financial institutions	7	437,894	(220)	437,674	-	-
Other financial assets held at AC	11	367	-	367	-	-
Loans and advances (i)	13	3,680,827	(5,834)	3,674,993	35,733	7,038,328
- Home loans		3,534,560	(4,465)	3,530,095	-	6,671,534
- Secured overdrafts		32,552	(60)	32,492	-	275,672
- Personal loans		34,088	(523)	33,565	35,716	-
- Overdraft & credit cards		36,749	(582)	36,167	17	-
- Commercial & property finance		42,878	(204)	42,674	-	91,122
Due from controlled entities	16	50,988	(3,823)	47,165	-	-
Total		4,227,303	(9,877)	4,217,426	35,733	7,038,328
Off-Balance Sheet						
Undrawn credit commitments	30	358,855	(278)	358,577	-	-
Maximum credit exposure		4,586,158	(10,155)	4,576,003	35,733	7,038,328

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

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (continued)

(d) Climate related risk

Physical, transition and liability risks associated with climate change are relevant to 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 taken into account when the corporate risk profile for the Group is finalised.

(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 has in place an Internal Capital Adequacy Assessment Process "ICAAP" that ensures that capital is held at a level consistent with the Group's risk profile and strategy. The ICAAP requires that systems and procedures are in place to identify, assess, measure, monitor and manage the risks arising from activities on a continuous basis. The ICAAP supports a capital management plan. The capital management plan is consistent with the overall business plan, and is used by the Group for managing its capital levels on an ongoing basis. The capital management plan considers forward projections (one to three years), to assist in managing capital within the Group's risk parameters.

The capital management plan includes a capital management strategy and capital target levels. The plan addresses how the target is to be met and the means for sourcing additional capital.

The overall objective of having a capital management strategy is for the Board and management to create value for the Bank's members while maintaining a sound and viable business through the effective management of its risks. The actual level of capital adequacy is calculated every month, reviewed by ALCO and reported to Risk Committee and the Board, to ensure compliance with the minimum capital ratio. 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 change 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 2020	Consolidated		Police & Nurses Limited	
	2020	2019	**2020**	2019
Capital adequacy ratio as at 30 June	**14.84%**	14.93%	**14.84%**	15.00%

Notes to the Financial Statements

35 BUSINESS COMBINATION

During the year 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.

The consideration transferred is as follows:

	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**

The amounts recognised as of the acquisition date 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

Notes to the Financial Statements

35 BUSINESS COMBINATION (continued)

(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 Bananacoast Community Credit Union and Police and Nurses Ltd on the date of the merger.

(f) Purchase consideration

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

36 EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The uncertainty regarding the duration and extent of the COVID-19 pandemic impact on the economy and the recovery thereafter persists. We considered and concluded that the events after the balance sheet date would not require adjustments made to the amounts and disclosures in the financial statements. There were no other material subsequent events identified.

Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 22 to 84 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Group's and Bank's financial position as at 30 June 2020 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.

P.M. Gabb

P M GABB
Director

S C TARGETT
Director

Date: 31 August 2020
PERTH, WA

Independent auditor's report

To the members of Police & Nurses Limited

Our opinion

In our opinion:

The accompanying financial report of Police & Nurses Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2020 and of their financial performance for the year then ended

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

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company balance sheets as at 30 June 2020
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company cash flow statements for the year then ended
- the Consolidated and Company income statements and statements of comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

We are independent of the Company and the Group in accordance with the auditor independence requirements of 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Independent Auditor's Report (continued)

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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for 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 ability of the Company and the Group 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 Company or the Group 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 the financial report.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Douglas Craig

Douglas Craig
Partner

Perth
31 August 2020