Annual Report
2017

Directory

Directors

Paul Marshall Gabb (Chair)
Stephen John Melville (Deputy Chair)
Edwin Roy Bradley
Julie Ann Elliott
Michelle Louise Fyfe
Wayne Gregson
Andrew Douglas Hadley
Karl Joseph O'Callaghan (retired April 2017)
Eric Laurence Smith

Chief Executive Officer

Andrew Douglas Hadley

Company Secretary

Jennifer Handz

Registered Office

Police & Nurses Limited
ABN 69 087 651 876

Level 7
130 Stirling Street
Perth 6000
Western Australia
Telephone 13 25 77
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

Individually we can be great but together we are greater.

Cover: P&N Bank team volunteering at Channel 9's Matt and Kim to the Rescue Episode 7

Contents

This financial report covers both the separate financial statements of Police & Nurses Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Police & Nurses Limited and its subsidiaries. The financial report is presented in Australian dollars.

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the report of the Directors on pages 16 to 20, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 28 August 2017. 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.

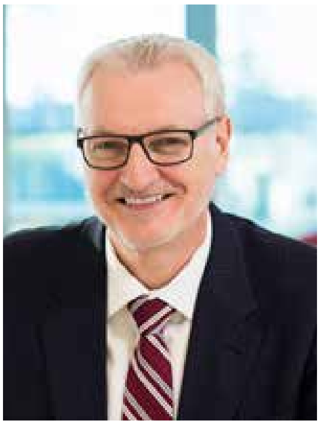
The disclosure covering the period ending 30 June 2017 can be found here:

www.pnbank.com.au/about/corporate-information/corporate-details/

	2012	2013	2014*	2015	2016	2017	5 year CAGR**	1 year CAGR**
Total loans under management ($m)	2,387	2,386	2,450	2,615	3,163	3,375	7.17%	6.71%
Total assets under management ($m)	2,830	2,845	2,910	3,064	3,761	3,985	7.09%	5.97%
Deposits ($m)	1,851	2,032	2,293	2,387	2,701	2,837	8.92%	5.04%
Reserves ($m)	218.3	232.8	241.0	251.5	260.5	273.5	4.61%	4.97%
Group NPAT^ ($m)	9.2	13.1	8.2	9.3	8.5	11.1	3.73%	29.86%
Bank NPAT^ ($m)	11.1	12.1	8.9	10.2	10.6	11.1	-0.09%	4.92%

* Restated
** CAGR: Cumulative Annual Growth Rate
^ NPAT: Net Profit After Tax and After Minority Interest

Board Members



Paul Marshall Gabb
Chair

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Director

Andrew Douglas Hadley
Director

Karl Joseph O'Callaghan
Director (retired April 2017)

Eric Laurence Smith
Director

Executive Team

Andrew Hadley
Chief Executive Officer

Michael Ribbens
Chief Financial Officer

Corrine Alexander
Chief Risk Officer

Mark Smith
General Manager
Organisational Development

Selina Duncalf
General Manager
Member Experience

Erik Fenna
Chief Information Officer

Kim Radalj
General Manager
Strategy & Development

Jennifer Handz
General Counsel &
Company Secretary

Chair's Report

It is with great pleasure I present our 2017 Annual Report.

Our Success

At the half way mark of our current five year Strategic Plan, P&N Bank has delivered another very successful year in terms of performance, partnership and development under the strong leadership of our CEO Andrew Hadley and his Executive team.

With you, our members, at the heart of everything we do, the Board and Management remain committed to providing value to all of our members while ensuring that P&N continues as a contemporary, vibrant and strong banking organisation long into the future.

With a business-wide focus on innovation and continuous improvement, P&N further developed and enhanced our service and product propositions. At the same time, we kept a firm eye on the competition and the rapidly evolving global banking and payments sector.

Despite the particularly challenging WA economic environment, P&N has grown both its lending and deposit portfolios. Our existing members now take advantage of more P&N banking products, and over the course of the year we have attracted more West Australians to P&N and customer-owned banking.

And while growth is important in order to remain relevant and to invest in our future, it's giving back to our members and our community, the "Power of &", that I see as our greatest achievement.

P&N's four community partnerships have flourished and our Helping &nds community initiatives have grown from strength to strength thanks to the support of you, our members. It's been immensely rewarding to see the number of individuals, families and deserving groups who have received a hand when they need it most, thanks to your nominations and votes.

Our commmunty partner, Lifeline WA

Our Sector

Competition in retail banking is vital for the economy and in providing Australians with genuine choice.

It's here that mutual and co-operative organisations have enormous value to offer.

Our Board is majority appointed by our members which means that our sole focus is to act in the best interests of our members, balanced by stringent regulatory and legal requirements.

We respect the role played by the major banks and acknowledge that Australia has arguably the strongest banking system in the world. However, we also believe we can offer our members something the listed banks cannot; the opportunity to bank with a trusted, transparent institution totally focused on their needs as opposed to the needs of shareholders.

This is why we're so keen to see Australia recognise the value of the mutual and co-operative model and ensure that it remains competitive and sustainable for our members and the generations that follow them.

Currently, there is no specific reference in the Corporations Act to recognise the mutual or co-operative model, which results in an uneven playing field between mutual banks and the listed banks.

Following on from the 2014 Murray Inquiry into the Financial Services Industry and the subsequent Senate Inquiry into Co-operatives and Mutuals, the customer-owned banking sector is receiving support from all sides of politics to foster enhanced awareness of mutuals and co-operatives and to benefit Australian consumers.

During the year, P&N Bank played an active role in providing a submission to the Federal Government's Hammond Inquiry which has made recommendations to the Treasurer on whether there should be regulatory and/or legislative changes to improve access to capital for organisations such as ours.

At the same time, our CEO separately met with the Federal Treasurer, the Hon Scott Morrison MP and the Minister for Finance, Senator Mathias Cormann to share specific measures that would help promote a more level playing field.

P&N will continue to actively participate in the national conversation to champion choice and competition on behalf of all Australian banking consumers.

Our Board

At last year's AGM I announced the appointment of our Chief Executive to the Board and in December 2016, our Board also welcomed highly experienced senior banking and finance executive Julie Elliott. As a Board appointed Director, Julie has 35 years' experience across retail banking, commercial banking, payments, wealth management, project management, accounting and audit.

As part of her Directorship, Julie has also joined the P&N Bank Risk Committee and more recently the Governance and Remuneration Committee. I know Julie is looking forward to meeting members at our Annual General Meeting and I would again like to welcome her to our Board.

Serving on our Board since 2006, Karl O'Callaghan OAM resigned as a Director of Police & Nurses Limited in April 2017. Over the past 11 years Karl played a significant role as a Director, most recently as Chair of the Board Governance Committee. As the WA Police Commissioner, Karl has represented the interests of the entire WA community during his tenure and I would like to again thank Karl for his dedication and commitment to our organisation. The Board, Management and Staff wish Karl all the best in his retirement.

Despite a challenging economy, P&N continues to flourish because we have never lost focus on what's important - our members.

Final words from the Chair

Despite a challenging economy, P&N continues to flourish because we have never lost focus on what's important - our members.

In acknowledging the solid performance of the past year, I would like to thank our dedicated and committed Board of Directors whose support and counsel I continue to value and appreciate.

To P&N's CEO, Andrew Hadley, his Executive team, Management and Staff, thank you all for your leadership, passion, energy and hard work in putting our members first each and every day. Our high advocacy rate is a result of your genuine care and commitment to our members.

On a final note, I would like to thank you, our members, for your unwavering loyalty, support and feedback.

Regardless of your tenure as a P&N Bank member, you deserve a modern, progressive and sustainable bank that looks to the future but also remembers where it has come from.

As a collective and on your behalf, the Board, Executive, Management and Staff will continue to focus on enriching the lives of our members and their communities.

As we head into the second half of our current Strategic Plan, I am very excited about the foundations that we have laid and what the future will bring.

P.M. Gabb

Paul M Gabb
Chair

CEO's Report

It's my pleasure to present this year's CEO Report at the half way point of our current Strategic Plan.

Some three years ago, during the first phase of that Plan, we focused on building member value and improving organisational effectiveness. It's been very rewarding to see the benefits of this strategy come to the fore in terms of the value we have created for our members across our product suite, community activities, digital and service channels.

As outlined by the Chair, P&N's focus on providing member value and excellent member service underpins everything we do.

I'm pleased to report that despite a year of economic challenges, fierce competition and an uncertain global environment, P&N Bank performed well, delivering above system retail lending growth of 7.5% and retail deposit growth of 6.5% for the year. Despite the difficult market, our lending, savings and transactional banking propositions are resonating strongly.

P&N Bank's net profit after tax was a solid $11.09 million, up 4.9% from last year which was achieved notwithstanding a contraction in our net interest spread which ultimately benefits members.

As a customer-owned organisation with no external shareholders, our profits are needed to reinvest back into the organisation to support growth and to provide our members with a contemporary and relevant banking experience long into the future.

Digital Developments

In this age of rapidly evolving banking and payments technology, it is clear that the provision of modern digital banking channels is essential to our member value proposition, and will be a key driver of P&N's future growth and success.

In 2016, we invested in our new internet banking and mobile banking app platforms. These enhanced digital channels offer members an improved experience when transacting online or via a smart mobile device. Currently over 50% of members are active internet banking and mobile app users, with 78% of all digital banking logins taking place via a mobile device.

To further improve access, online account opening was launched in late 2016. This allows savings and transaction accounts to be opened via the P&N website and currently 10% of new memberships come directly via this channel.

P&N's new Pay&Save was also introduced in late 2016, and offers members a convenient and innovative way to transact and to save at the same time. Linked to an approved P&N savings account, Pay&Save is the digital equivalent of putting loose coins into a change jar.

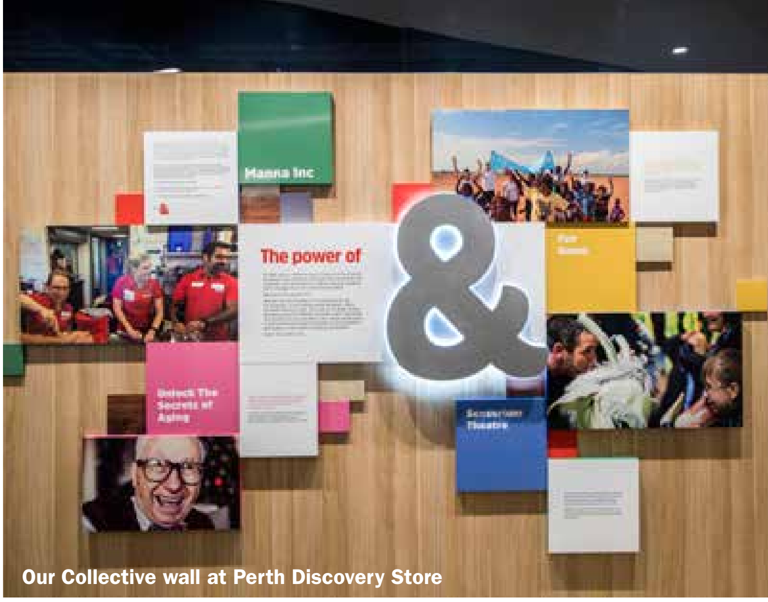
Members use their Visa debit card to make a purchase, the transaction amount is "rounded up" to the nearest dollar, with the difference then being transferred from their & Transaction account to an eligible P&N Bank savings account. Pay&Save presents great value, solving a problem for people who struggle with the habit of saving money, while using a convenient everyday banking solution.

And as part of P&N's payments proposition, members also now have the option of using their smart phone to make purchases - via Apple Pay, Android Pay™ or Samsung Pay.

In addition, the days of waiting up to three days for funds to land in your bank account may soon be over, thanks to an overhaul of Australia's electronic payment system.

We remain sharply focused on optimising the value we provide all our members in terms of pricing, product offerings, digital technologies and service to benefit our entire membership collective.

Perth Wildcats P&N Bank Game Night



Our Collective wall at Perth Discovery Store

Flourish@Work at Manna

Variety WA, our community partner

P&N Bank is on board with a faster and smarter payments platform known as the New Payment Platform (NPP) – the biggest electronic payment initiative ever undertaken in Australia. Members will learn more about this in due course.

As technology and innovation reshape our world in ways that we could never have imagined, we look forward to more developments on the horizon.

Our Branches

Having a strong physical presence in our community is very important to us. Branches provide the opportunity for members to transact face to face and enjoy a more personal banking experience. P&N is therefore very committed to providing branches in locations that suit the greatest number of our members.

New CBD Discovery Store

P&N now has a presence in Perth's CBD, with our new Perth Discovery Store opening on St George's Terrace in April 2017. This modern, open and inviting space provides a comfortable environment rather than a traditional banking layout. It's been designed to foster more relaxed and genuine conversations with our members. If you haven't already, I encourage you to visit the team at our new Discovery Store and let me know what you think.

Our Community

The first full year of our Flourish Foundation community activities has been an outstanding success. As well as annual activities with each of our four community partners – Lifeline WA, Variety WA, Alongside and The Fathering Project, these groups participated in our first collaborative event that showcased the important work they do in our community. This event highlighted the power of people working together for a collective benefit, and has already delivered improved awareness and collaboration across the groups' staff, clients and volunteers.

Our Helping &nds program has continued to assist many individuals and families who were nominated by our members as needing support.

CEO's Report

Whether it was a new washing machine for a single mother of a special needs child or a voucher to pay for groceries of a family who had encountered significant hardship, our program worked in the background throughout the year making a difference on behalf of our members. I encourage all of our members to make themselves aware of the program and the positive impact it could have on the lives of their friends, neighbours and community.

Our Helping &nds Group contributions also played an important community role throughout the year, supporting a total of 40 small not for profit groups, all voted by our members to be worthy of financial support. It has been very inspiring to learn about the tireless work of so many West Australian community volunteers who all share a passion for helping people, animals or the environment.

Our Flourish@work staff volunteering program again saw P&N staff taking time to participate in activities that assist selected community initiatives such as the Manna Kitchen and the Speld Organisation's Literacy Program through our partnership with United Way.

Our Financial Results 16/17

Australia's economic landscape continues to be subdued although more recent indications point to improvements in unemployment and overall business confidence. Western Australia continues to feel the effects of the commodity cycle but we expect economic conditions during the course of 2018 to steady.

- The Bank's net profit after tax was $11.09 million, up 4.9% from the previous year's $10.57 million.
- The Bank's capital adequacy ratio improved to 14.63% (15/16 - 14.55%) as a result of above system growth and steady profit generation.
- Total Bank assets increased by $242.69 million (6.5%) to $3.98 billion following sound growth in loans and advances of $210.86 million (6.7%).
- The Bank's member deposits increased by $136.50 million (5.0%) despite the continued low cash rate environment. P&N Bank's competitive products and strong member focus has resulted in steady deposit growth.
- Group profit before tax increased by 8.8% from $12.57 million to $13.67 million.
- Group net profit after tax increased by 29.9% from $8.52 million to $11.06 million. This increase was largely due to utilising previous tax losses to offset capital gains on assets now held for sale.

Images L - R
Our community partner, Alongside "My Dad wears a cape to work and somedays he lets me wear it" – Perth Wildcats – P&N Bank Perth Wildcats Fan Day

- Group net interest income increased $1.78 million (2.7%) to $68.13 million.
- Total Group assets increased $224.40 million (6.0%) to $3.99 billion.
- Total Group Member Funds, including retained earnings, increased by $12.95 million (5.0%) to $273.49 million.

Active member numbers grew by 2% to 93,013 over the course of 16/17.

P&N Financial Planning

P&N Financial Planning had another successful year, growing both client numbers and Funds under Advice, while maintaining high levels of client satisfaction. Pleasingly we saw significant growth in protection insurance off the back of strong growth in P&N Bank's home loan book.

In April 2017, Ken Manley retired from P&N Financial Planning. Ken's career spanned 39 years starting with the Police Credit Society in March 1978. 2017 was Ken's 30th year of providing high-quality financial advice to clients at P&N Financial Planning and we wish him well in retirement.

Broker Services

P&N Bank's Broker Services had a successful year with 14% growth in loan funding sourced via brokers. West Australian Mortgage Brokers supported us by voting P&N Bank as the Mutual/Specialty Lender of the year at the WA Mortgage and Finance Association of Australia Excellence Awards. Our Business Development Manager, Petra Heberle, was also recognised as Western Australia's Best Lender BDM at The Adviser Better Business Awards in March 2017.

It's by working as a collective that we will all benefit, both as individuals and as a community.

Looking Ahead

The past year has been characterised by continued global geo-political volatility and uncertainty which shows no signs of abating.

The unprecedented low interest rate environment in Australia has remained. The combination of low national inflation and wages growth, together with a flat WA economy, has continued to place pressure on the margin between the rates we charge our borrowers and those we pay our depositors.

We remain sharply focussed on optimising the value we provide all our members in terms of pricing, product offerings, digital technologies and service to benefit our entire membership collective.

Through partnering we've been able to improve home loan settlements and back office processing efficiencies. In the increasingly digitised and automated world, wherever we can create efficiencies that enhance our member experience we will pursue those opportunities, with our members' interests at the fore.

Acknowledgments

It has been another busy but rewarding year for P&N Bank.

I would like to thank the Board for their support as we continue to deliver on our plan for a vibrant, resilient and sustainable organisation. In particular, I would like to thank our Chairman, Paul Gabb, for his counsel and ongoing support throughout the year.

To my Executive team, Management and Staff, I sincerely thank you all for your loyalty, engagement and dedication to our members. As a team we work hard for our members and each other, and that sense of commitment is what makes P&N such a special place to work.

Last but not least, I'd like to extend significant thanks to our members, for their continued loyalty, feedback and commitment to P&N. I trust that you will continue to promote the significant benefits of customer-owned banking to your family and friends.

It's by working as a collective that we will all benefit, both as individuals and as a community.

Andrew Hadley
Chief Executive Officer

Highlights

BEST MUTUAL BANK

MFAA BROKER AWARDS 2017

RFI AUSTRALIAN LENDING AWARDS 2017

Pay
pay
SAMSUNG pay

LAUNCHED ALL THREE **DIGITAL WALLETS**

NEW INTERNET BANKING AND MOBILE **APP** LAUNCHED

42% WOMEN IN MANAGEMENT

STAFF ENGAGEMENT **75%**

PERTH CBD DISCOVERY STORE

OPEN

+43 NET PROMOTER SCORE

JUNE 2017

FUNDED OUTREACH PROGRAM FOR WA EMERGENCY SERVICE PTSD FAMILIES VIA OUR ALONGSIDE PARTNERSHIP

40 COMMUNITY GROUPS AND

31 FAMILIES ASSISTED BY

Helping &nds

FUNDED FULL TRAINING OF TWO LIFELINE WA TELEPHONE CRISIS SUPPORT VOLUNTEERS

Enriching the lives of our members and their communities.

Accessible Banking

Branches

Our branch network extends from Ocean Keys in the north to Bunbury in the south and offers home and personal lending, insurance, transactional banking, savings accounts and financial planning services.

Local Contact Centre

Our Contact Centre is located in our Head Office at 130 Stirling Street, Perth. Our consultants can interact with members via phone, online web chat, email, Facebook and Twitter. The Contact Centre manages around 1,000 contacts per day and operates from 8.00am to 6.00pm (WST), Monday to Friday and 9.00am to 5.00pm (WST) on Saturdays.

Online Banking Services

Internet banking allows members to access their accounts 24/7 via the internet. Our mobile banking app allows members to access their accounts easily via mobile phones and tablets.

Phone Banking

Through phone banking our members can retrieve account information, transfer money and pay their bills.

ATM Network

P&N Bank is a part of the rediATM network, one of the largest ATM networks in Australia, providing members with free access to their money.

Mobile Lending Managers

We can visit our members at their home or workplace, during or after hours, to help them choose the lending solution to suit their needs – so members can spend their free time doing the things that they love.

Financial Planning

P&N Bank Financial Planning helps members make the most of their financial opportunities, offering expert advice in areas such as superannuation, investments, insurance and retirement planning.

Insurance

P&N Insurance products include motor vehicle, boat and caravan, home and contents, loan protection and travel insurance. These products are made available to members through our affiliation with QBE Insurance Australia.

Foreign Exchange

We can provide our members with a range of foreign exchange services from cash passports to international transfers and foreign currency exchange.

Clockwise from top left – Community partner Alongside, "Ride Alongside"; community partner, The Fathering Project, Volunteer of the Year, Paul Buckman; Lifeline team "R U OK" Day; Flourish "Growing Partnerships in the Community" Event; The P&N Team lending a helping hand; Variety WA guests at P&N's Flourish Event.

Report of the Directors

Your Directors present their report on the financial statements of Police & Nurses Limited ("the Bank") and Police & Nurses Limited and its controlled entities ("the Group") for the year ended 30 June 2017.

Corporate Governance

The Board of Directors ("the 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 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, 19 years' service as a Director of the Bank; 31 years' service in Law Enforcement. Audit Committee member and Risk Committee member.

Stephen John MELVILLE
(Deputy Chair) B.Bus (Accounting) FCPA GAICD

Director - Corporate Services, Department of Jobs, Science, Tourism & Innovation, 23 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 from 31 October 2016, Risk Committee Chair, Member of Audit Committee, and Board Credit Committee.

Edwin Roy BRADLEY
MBA BBus GAICD FCPA SF Fin

Consultant with 39 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. Five years' service as a Director of the Bank. Risk Committee member, Audit Committee member and Board Credit Committee Chair.

Michelle Louise FYFE
APM GAICD Masters of Executive Leadership (Policing & Emergency Services)

Assistant Commissioner State Crime – WA Police. 33 years' service as a Police Officer, 8 years' service as a Director of the Bank. Board Governance Committee Chair from 31 October 2016, Board Credit Committee member, Nominations Committee Chair to 31 October 2016 and Board Governance and Remuneration Committee Chair from 20 March 2017.

Wayne GREGSON
APM BA MBA PhD FAICD

Commissioner, Department of Fire & Emergency Services WA, 32 years' service as a Police Officer, 8 years' service as a Director of the Bank. Remuneration Committee Chair to 20 March 2017, Board Governance Committee member and Board Governance and Remuneration Committee member from 20 March 2017.

Julie Ann ELLIOTT
FAICD FCA FFin MBA (Exec) BEc (Board appointed 16 November 2016)

Principal with Nous Group with 35 years' experience across retail banking, commercial banking, payments, wealth management, project management, accounting and audit. Member of Risk Committee, Board Credit Committee and Board Governance and Remuneration Committee from 15 June 2017.

Andrew Douglas HADLEY
BCom GAICD SFFin (Board appointed 24 October 2016)

CEO of P&N Bank since January 2014 and Board appointed Director since 24 October 2016, with over 25 years financial services experience in Strategy, Operations, Marketing, Sales & Distribution.

Karl Joseph O'CALLAGHAN
APM BA B.Ed (Hons) PhD GAICD (Resigned 24 April 2017)

Commissioner of WA Police. 44 years' service as a Police Officer and 12 years' service as a Director of the Bank. Board Governance Committee Chair to 31 October 2016, Remuneration Committee member to 20 March 2017 and Board Governance and Remuneration Committee member from 20 March 2017.

Eric Laurence SMITH
FAICD FAMI

Detective Inspector – WA Police. 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).

23 years' service as a Director of the Bank; 41 years' service as a Police Officer. Member of Remuneration Committee to 20 March 2017, Audit Committee Chair and Board Governance and Remuneration Committee member from 20 March 2017.

Each Director holds one member share in the Bank.

Jennifer Anne HANDZ
Company Secretary

Two years' service as General Counsel and Company Secretary of the Bank. Has held senior legal roles in Perth, London, Moscow, Hanoi and Warsaw. Admitted as a solicitor and barrister to the Supreme Court of Western Australia in 1987.

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 a maximum of nine directors, being six member elected directors and no more than three board appointed directors 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 2017 and the number of meetings attended by each Director.

Director	Directors' Meetings		Audit Committee Meetings		Board Governance Committee Meetings		Risk Committee Meetings		Remuneration Committee Meetings		Board Credit Committee Meetings		Board Governance and Remuneration Committee Meetings***	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
E L Smith	11	10	3	3	*	*	*	*	2	2	*	*	2	2
P M Gabb	11	11	3	3	*	*	8	7	*	*	*	*	*	*
E R Bradley	11	10	3	3	*	*	8	8	*	*	4	4	*	*
M L Fyfe**	11	9	*	*	2	2	*	*	*	*	4	4	2	2
W Gregson	11	11	*	*	2	2	*	*	2	2	*	*	2	1
S J Melville	11	11	3	3	*	*	8	8	*	*	4	4	*	*
K J O'Callaghan	9	8	*	*	2	0	*	*	2	0	*	*	1	1
A D Hadley****	8	8	*	*	*	*	*	*	*	*	*	*	*	*
J A Elliott	7	7	*	*	*	*	5	5	*	*	4	4	1	1

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 held one meeting, which was fully attended. This meeting was chaired by Ms Michelle Fyfe and included two independent attendees.

*** During the year, the Board Governance Committee and the Remuneration Committee combined to form the Board Governance and Remuneration Committee.

**** During the year Mr Hadley was an attendee at each of the meetings of the Board, Audit Committee, Risk Committee, Board Credit Committee, Board Governance Committee, Remuneration 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 each year 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 Governance Committee and the Remuneration Committee were combined on 20 March 2017 to form the 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 every third year. The Chairman 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.

Board Credit Committee

The Board has established a Board Credit Committee to assist in the execution of its responsibilities. The Committee comprises four Board members. The Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in making decisions on lending submissions that are to be considered by the Board, according to certain thresholds and criteria.

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 Chairperson 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 expected to act in accordance with the Constitution, any Board approved Code of Conduct, and Conflict of Interest Policy.

Any Board member who has a material pecuniary or non-pecuniary interest in any matter before the Board will neither be present at the Board meeting while the matter is considered nor vote on the matter.

Report of the Directors

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.

Review of Operations

The profit of the Group and the Bank for the financial year after income tax and before minority interest was $11,019,582 (2016: $8,549,214) and $11,092,147 (2016: $10,571,740) respectively.

During the financial year, total assets of the Group increased by $224,399,898 to $3,985,492,199, members' deposits increased by $136,148,137 to $2,837,251,472, and loans and advances increased by $212,071,920 to $3,374,848,061.

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

Future Development and Results

Future financial periods are likely to include further improvements in the provision of services to members and managed growth in financial performance. The Bank is progressively winding down its specialist property finance business and has decided to sell Jacaranda Gardens Retirement Village which is no longer considered to be part of the Bank's core business.

Significant Changes

There has been no significant change in the state of affairs of the Group or Bank during the financial year.

Events Subsequent to the End of the Financial Year

No matter or circumstance has arisen since the end of the financial year that has or may significantly affect the operations, results of those operations, or the state of affairs of the Group or the Bank.

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.

Register of Directors' Interests

The Bank keeps a register containing information about the Directors, including details of each Director's interest in securities issued by the Bank. The register is open for inspection:

- by any member of the Bank, without fee; and
- by any other person, on payment of the amount (if any) prescribed by the Bank's rules.

Insurance of Officers

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

Auditors' Independence Declaration

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

Rounding of Amounts

The company is 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.

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

P M GABB
Director

S J MELVILLE
Director

Date: 28 August 2017
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 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
28 August 2017

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Income Statements

Year Ended 30 June 2017	Notes	Consolidated		Police & Nurses Limited	
		2017	2016	**2017**	2016
		$000	$000	**$000**	$000
Interest revenue	3	**155,126**	147,849	**173,134**	166,232
Interest expense	3	**86,995**	81,498	**107,528**	101,845
Net interest income		**68,131**	66,351	**65,606**	64,387
Non-interest revenue					
Loan fee revenue		**2,791**	3,359	**2,791**	3,359
Financial services fees		**3,017**	3,218	**3,017**	3,218
Financial planning fees		**2,966**	3,052	**-**	-
Amenity fees		**536**	618	**-**	-
Other fee revenue		**497**	781	**523**	553
Securitisation servicing fees		**-**	-	**3,636**	2,888
Insurance commissions		**3,155**	3,740	**3,155**	3,740
Other commissions		**2,107**	1,838	**2,107**	1,838
Revenue from sale of property developments		**1,390**	556	**-**	-
Dividend revenue		**409**	409	**426**	1,009
Other income					
Bad debts recovered		**479**	415	**479**	415
Other income		**1,992**	1,465	**1,586**	1,199
Total non-interest revenue and other income		**19,339**	19,451	**17,720**	18,219
Total income		**87,470**	85,802	**83,326**	82,606
Bad and doubtful debts expense	8(b)	**3,555**	2,969	**3,555**	2,969
Other expenses					
Auditor's remuneration	28	**470**	427	**406**	392
Finance costs		**431**	463	**431**	463
Depreciation and amortisation		**5,002**	5,299	**4,974**	5,109
Fees and commissions		**7,023**	6,447	**6,811**	6,175
Property development costs		**1,208**	596	**-**	-
Employee benefits expense		**32,474**	33,331	**30,152**	30,774
Information technology costs		**5,709**	5,612	**5,624**	5,529
Marketing costs		**3,144**	3,989	**3,118**	3,952
Other general and administration costs		**6,908**	7,153	**6,313**	6,700
Loss on revaluation of investment property		**1,331**	859	**-**	-
Net loss on disposal of plant & equipment & intangible assets		**623**	-	**623**	-
Rental - operating leases		**5,925**	6,090	**5,925**	6,090
Total expenditure		**73,803**	73,235	**67,932**	68,153
Profit before income tax		**13,667**	12,567	**15,394**	14,453
Income tax expense	4	**2,648**	4,017	**4,303**	3,881
Profit for the year		**11,019**	8,550	**11,091**	10,572
(Profit) / loss attributable to non-controlling interests		**40**	(33)	**-**	-
Profit attributable to members		**11,059**	8,517	**11,091**	10,572

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

Statements of Comprehensive Income

Year Ended 30 June 2017	Notes	Consolidated		Police & Nurses Limited	
		2017	2016	**2017**	2016
		$000	$000	**$000**	$000
Profit for the year		**11,019**	8,550	**11,091**	10,572
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	23(c)	**1,078**	755	**1,078**	755
Changes in the fair value of available for sale financial assets	10(a)	**1,684**	-	**1,684**	-
Income tax relating to these items	4(c)	**(828)**	(227)	**(828)**	(227)
Other comprehensive income for the period, net of tax		**1,934**	528	**1,934**	528
Total comprehensive income for the period		**12,953**	9,078	**13,025**	11,100
Total comprehensive income for the year is attributable to:					
Members of the Bank		**12,993**	9,045	**13,025**	11,100
Non-controlling interests		**(40)**	33	**-**	-
		12,953	9,078	**13,025**	11,100

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

Balance Sheets

Year Ended 30 June 2017	Notes	Consolidated		Police & Nurses Limited	
		2017	2016	**2017**	2016
		$000	$000	**$000**	$000
Assets					
Cash and cash equivalents	5	**134,011**	164,351	**87,092**	110,060
Receivables due from other financial institutions	6	**394,768**	341,378	**394,768**	341,378
Available for sale financial assets	10	**8,625**	6,940	**6,562**	4,877
Assets held for sale	14	**23,469**	-	**-**	-
Other assets	7	**34,622**	48,167	**4,458**	6,919
Loans and advances	8	**3,374,848**	3,162,776	**3,374,848**	3,163,989
Derivative financial instruments	9	**318**	-	**318**	-
Due from controlled entities	11	**-**	-	**97,060**	93,889
Property, plant and equipment	12	**6,926**	7,190	**6,867**	7,104
Investment property	13	**-**	21,425	**-**	-
Investments in controlled entities	15	**-**	-	**3,082**	3,083
Intangible assets	16	**7,905**	8,865	**6,333**	7,293
Deferred tax assets	17	**-**	-	**2,972**	3,077
Total assets		**3,985,492**	3,761,092	**3,984,360**	3,741,669
Liabilities					
Members' deposits	18	**2,837,251**	2,701,103	**2,838,920**	2,702,424
Trade and other payables	19	**16,975**	40,719	**15,940**	19,935
Liabilities associated with assets held for sale	14	**16,097**	-	**-**	-
Derivative financial instruments	9	**762**	1,448	**426**	1,448
Current tax liabilities		**346**	978	**436**	986
Borrowings	20	**835,743**	747,195	**355,288**	306,179
Due to controlled entities	11	**-**	-	**497,840**	447,838
Provisions	21	**3,815**	7,504	**3,645**	4,019
Deferred tax liabilities	22	**1,010**	1,605	**-**	-
Total liabilities		**3,711,999**	3,500,552	**3,712,495**	3,482,829
Net assets		**273,493**	260,540	**271,865**	258,840
Members' funds					
Reserves	23	**223,091**	221,130	**223,091**	221,130
Retained earnings	23	**49,795**	38,763	**48,774**	37,710
Non-controlling interests		**607**	647	**-**	-
Total members' funds		**273,493**	260,540	**271,865**	258,840

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

Statements of Changes in Equity

Year Ended 30 June 2017	Notes	Consolidated		Police & Nurses Limited	
		2017	2016	2017	2016
		$000	$000	$000	$000
Total members' funds (equity) at the beginning of the financial year		**260,540**	251,462	**258,840**	247,740
Changes in the fair value of cash flow hedges, net of tax	23(c)	**755**	528	**755**	528
Changes in the fair value of available for sale financial assets	23(d)	**1,179**	-	**1,179**	-
Net income recognised directly in members' funds (equity)		**1,934**	528	**1,934**	528
Profit for the year		**11,019**	8,550	**11,091**	10,572
Total comprehensive income for the year		**12,953**	9,078	**13,025**	11,100
Total members' funds (equity) at the end of the financial year		**273,493**	260,540	**271,865**	258,840
Total comprehensive income for the year is attributable to:					
Members of the Bank		**12,993**	9,045	**13,025**	11,100
Non-controlling interests		**(40)**	33	**-**	-
		12,953	9,078	**13,025**	11,100

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

Cash Flow Statements

Year Ended 30 June 2017	Notes	Consolidated		Police & Nurses Limited	
		2017	2016	**2017**	2016
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**145,002**	137,738	**146,590**	139,051
Interest received from investments		**10,382**	10,711	**26,802**	27,781
Commissions and other income received		**19,216**	18,805	**16,446**	16,504
Borrowing costs - members		**(64,571)**	(65,661)	**(64,571)**	(65,661)
Borrowing costs - banks		**(21,003)**	(16,969)	**(41,535)**	(37,317)
Payments to employees and suppliers		**(68,693)**	(73,039)	**(64,401)**	(64,574)
Income taxes paid		**(4,648)**	(4,967)	**(5,520)**	(5,240)
Net cash inflow from operating activities	24	**15,685**	6,618	**13,811**	10,544
Cash flows from investing activities					
Dividends received		**409**	409	**409**	409
Net increase in loans and advances		**(215,148)**	(550,114)	**(213,936)**	(550,405)
Net movement in interest-earning deposits		**(53,390)**	(59,036)	**(53,390)**	(59,036)
Net movement in interest rate swaps		**18**	-	**(318)**	-
Proceeds from sale of property, plant and equipment		**24**	-	**24**	-
Payments for property, plant and equipment		**(2,429)**	(1,952)	**(2,429)**	(1,952)
Payments for intangible assets		**(1,995)**	(1,778)	**(1,995)**	(1,778)
Loans to controlled entities		**-**	-	**46,831**	203,742
Net cash outflow from investing activities		**(272,511)**	(612,471)	**(224,804)**	(409,020)
Cash flows from financing activities					
Net increase in members' deposits		**138,517**	322,102	**138,865**	321,828
Net borrowings from other financial institutions		**88,548**	385,516	**49,109**	164,933
Member shares issued		**79**	76	**79**	76
Member shares redeemed		**(28)**	(31)	**(28)**	(31)
Net cash inflow from financing activities		**227,116**	707,663	**188,025**	486,806
Net (decrease)/increase in cash and cash equivalents held		**(29,710)**	101,810	**(22,968)**	88,330
Cash and cash equivalents reclassified to assets held for sale		**(630)**	-	**-**	-
Cash and cash equivalents at the beginning of the year		**164,351**	62,541	**110,060**	21,730
Cash and cash equivalents at the end of the year	5	**134,011**	164,351	**87,092**	110,060

The above cash flow statements should be read in conjunction with the accompanying notes.
The above cash flow statements are presented inclusive of cash flows from assets and associated liabilities held for sale.

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 equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of 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 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) except that the entities have elected to apply the relief provided in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

Historical cost convention

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

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments) and investment property – 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 2016:

AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*

AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*

AASB 2015-1 *Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012 – 2014 cycle, and*

AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 101.*

The adoption of these standards has had no effect to the financial statements.

(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 the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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(y)).

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.

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

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Principles of consolidation (continued)

(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.

The Group's investment in Eagle Bay Joint Venture is classified as a joint operation and is accounted for using the Group's proportionate interest in the jointly-held assets, liabilities, revenues and expenses in the financial statements under the appropriate headings. Details of the investment are set out in note 29.

(c) Loan provisioning

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.

(d) Plant and equipment

Plant and equipment are shown at historical cost less depreciation. 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.

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

Leasehold improvements
3 - 10 years

Plant and equipment
3 - 8 years

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 (note 1(i)).

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) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group. An asset may be derecognised when its carrying amount is fully written down.

(f) Investment property

Investment property, principally comprising freehold residential buildings, was held for long-term amenities fee income and is not occupied by the Group. Investment property is carried at fair value, representing open-market value determined annually. Changes in fair value are recorded in the income statement as part of other income or expenses. The investment property has been reclassified as assets held for sale in 2017.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Available for sale financial assets

Available for sale financial assets are initially recognised at fair value plus acquisition charges. After initial recognition, investments are remeasured at fair value. Changes in fair value of available for sale financial assets are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative change in fair value, previously reported in equity, is included in earnings.

(h) 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 (3 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.

(iii) Client list

Client lists acquired as part of a business combination are recognised separately from goodwill. The client list is carried at its fair value at the date of acquisition less accumulated amortisation and any impairment losses. Amortisation is calculated based on the length of time of estimated benefits to the Group of the client list, which is ten years.

Any impairment loss is recognised in the income statement when incurred.

(i) Impairment of 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income tax

The income tax expense or revenue 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. Details about the tax sharing agreement are disclosed in note 4.

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in 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.

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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

Fees and commissions related to services provided over a period are recognised on an accruals basis.

For property development activities, revenue is recognised when risks and rewards have passed to the buyer, which is determined to be at least when there is a signed unconditional contract of sale and the work on the property development is complete. All marketing and direct selling costs are expensed as incurred.

Dividends receivable from controlled entities and available for sale financial assets are recognised when the right to receive payment is established.

Amenities fee revenue, included in other fee revenue, is payable by 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 accrued on a daily basis at a percentage of the estimate of the value of the dwelling at balance sheet date. This revenue is due for payment by a resident when a new lease is granted to the subsequent resident or 36 months after the dwelling is vacated.

(p) Inventories

Land held for resale is stated at the lower of cost and 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 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Derivatives

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

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

(r) 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.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

(s) 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 trade and other payables.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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.

(u) 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.

(v) Trade & other payables

Lease loan sum liability, included in other payables, represents the funds received from incoming residents to the investment property in respect of the lease for life granted to the resident of each dwelling. These amounts are interest free and are repayable either when a new lease is granted to the subsequent resident (from a new lease loan sum received from the subsequent resident), or 36 months after the dwelling is vacated.

All 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.

(w) 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.

(x) 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.

(y) 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 consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Business combinations (continued)

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.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(z) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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

(aa) 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.

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

Non current 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Rounding of amounts

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

(ad) New accounting standards

The following accounting standards have not yet been adopted:

AASB 9 - Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. AASB 9 is not mandatory until 1 July 2018 for the Group.

A project is currently underway to implement a solution that will satisfy the new impairment model, the financial impact of which has not yet been assessed.

AASB 15 - Revenue from Contracts with Customers contains new requirements for the recognition of revenue and additional disclosures. This will replace AASB 118 and AASB 111 and is not mandatory until 1 July 2018 for the Group. The full financial impact of the new standard has not yet been assessed, but it is not expected to be significant as it does not relate to our core business.

AASB 16 - Leases primarily affects the accounting for lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires a recognition of an asset and a financial liability. AASB 16 is not mandatory until 1 July 2019 for the Group and the impact on the Group's results has not yet been assessed.

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

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.

(ii) Estimated fair values of investment property

The Group carries its investment property, as an asset available for sale at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations every two years, with a Directors' valuation done in between. At the end of each balance sheet date, the Directors update their assessment of the fair value of the property, taking into account the most recent independent valuations and current market values.

The key assumptions used in this determination are set out in note 13.

(iii) Carrying value of goodwill

The Group carries its goodwill and client list at fair value at the date of acquisition less any accumulated impairment loss or amortisation recognised in profit or loss.

The key assumptions used in the determination of impairment loss and amortisation are set out in note 16.

(iv) Property development receivable from Pindan Capital Two Rocks Trust

The property development receivable from Pindan Capital Two Rocks is carried at amortised cost. The

Notes to the Financial Statements

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

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.

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

Non current 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 14.

(vi) 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 and reference the performance to other similar investments.

(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					
	2017			2016		
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	**495,552**	**10,382**	**2.10%**	435,149	10,711	2.46%
Loans and advances	**3,270,912**	**144,744**	**4.43%**	2,863,041	137,138	4.79%
	3,766,464	**155,126**	**4.12%**	3,298,190	147,849	4.48%
Interest-bearing liabilities						
Members' deposits	**2,556,986**	**66,424**	**2.60%**	2,279,502	64,991	2.85%
Borrowings from other banks/ADIs	**974,220**	**20,571**	**2.11%**	721,882	16,507	2.29%
	3,531,206	**86,995**	**2.46%**	3,001,384	81,498	2.71%

	2017	2016
Analysis of net interest income		
Net interest income	**68,131**	66,351
Average interest-earning assets	**3,766,464**	3,298,190
Net interest margin (1)	**1.81%**	2.01%
Spread (2)	**1.66%**	1.77%

The fee income and expenses associated with loan origination have been recognised as part of net interest income.
(1) Net interest margin represents net interest income as a percentage of the relevant average interest-earning assets.
(2) Spread represents the difference between the comparable average interest rates earned and paid.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
4 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**4,638**	4,713	**5,042**	5,059
Deferred tax	**(1,424)**	66	**(167)**	(398)
Over provided for current tax in prior years	**(566)**	(762)	**(572)**	(780)
Income tax expense	**2,648**	4,017	**4,303**	3,881
Deferred income tax (revenue)/expense included in income tax expense comprises:				
(Increase)/decrease in deferred tax assets (note 17)	**(396)**	433	**(114)**	(229)
Decrease in deferred tax liabilities (note 22)	**(1,028)**	(367)	**(53)**	(169)
	(1,424)	66	**(167)**	(398)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**13,667**	12,567	**15,394**	14,453
Prima facie income tax calculated at 30% (2016: 30%)	**4,100**	3,770	**4,618**	4,336
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non-deductible expenses	**20**	32	**20**	18
Intragroup dividends	**-**	-	**(4)**	(180)
Tax offset for franked dividends	**(175)**	(123)	**(175)**	(123)
	3,945	3,679	**4,459**	4,051
Capital tax losses recognised	**(555)**	-	**-**	-
(Over)/under provision in prior year, relating to:				
Research and development tax incentive	**(163)**	(135)	**(163)**	(135)
Other	**(579)**	473	**7**	(35)
Income tax expense	**2,648**	4,017	**4,303**	3,881
(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 or charged directly to equity (note 17 & note 22)	**828**	227	**828**	227
(d) Franking credits				
Franking credits based on a tax rate of 30%	**81,330**	76,758	**81,101**	76,569

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

4 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 (j). 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 11).

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
5 CASH AND CASH EQUIVALENTS				
Cash on hand	**1,504**	1,322	**1,504**	1,322
Cash and deposits at call with banks	**122,872**	154,062	**75,322**	99,771
Cash and deposits at call with other ADIs	**9,635**	8,967	**10,266**	8,967
	134,011	164,351	**87,092**	110,060
6 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest-earning deposits - banks	**351,498**	299,830	**351,498**	299,830
Interest-earning deposits - other ADIs	**43,270**	41,548	**43,270**	41,548
	394,768	341,378	**394,768**	341,378

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

7 OTHER ASSETS				
Interest receivable	**257**	515	**257**	515
Prepayments	**1,945**	2,088	**1,937**	2,088
Amenities and reserve fund fees *	**-**	9,726	**-**	-
Member transaction clearing	**726**	3,145	**726**	3,145
Land and property development debtors	**28,890**	28,855	**-**	-
Share of joint venture inventory	**1,023**	2,181	**-**	-
Other receivables	**1,781**	1,657	**1,538**	1,171
	34,622	48,167	**4,458**	6,919

*Amenities and reserve fund fees have been reclassified to assets held for sale. Refer to note 14.
Receivables are short-term in nature and dependent on the terms and conditions of the related contract, where one exists.

Notes to the Financial Statements

7 OTHER ASSETS (continued)

Land and property development debtors includes $26,720,000 (2016: $26,287,000) receivable from Pindan Capital Two Rocks Pty Ltd as trustee for the Pindan Capital Two Rocks Trust. This amount is payable based on future lot sales with any remaining balance payable on 15th June 2018.

The share of joint venture inventory is composed of "The Enclave" at Eagle Bay

1. During the year 7 lots (2016: 3 lots) were sold and settled.
2. Titles for the remaining 6 unsold lots are currently held.
3. The share of the joint venture held is 33.33%.

The remaining $1,023,000 of inventory is expected to be recovered in less than 12 months after the balance sheet date.

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
8 LOANS AND ADVANCES				
Revolving credit	**96,779**	103,596	**96,779**	104,809
Term loans	**3,278,423**	3,058,087	**3,278,423**	3,058,087
Related parties (a)	**6,276**	6,092	**6,276**	6,092
	3,381,478	3,167,775	**3,381,478**	3,168,988
Provision for impairment (b)	**(6,630)**	(4,999)	**(6,630)**	(4,999)
Net loans and advances	**3,374,848**	3,162,776	**3,374,848**	3,163,989

All housing loans are secured by registered mortgages.

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

As at 30 June 2017, securitised loans under management by the Bank amounted to $1,303,588,000 (2016: $968,231,000) which are included in both the revolving credit and term loans above. This includes $38,213,000 (2016: $48,336,000) of loans securitised to the Pinnacle Series Trust 2010-T1, $81,124,000 (2016: $107,628,000) of loans securitised to the Pinnacle Series Trust 2013 – T1, $805,357,000 (2016: $522,767,000) of loans securitised to the Pinnacle Series Trust 2014 – SST and $378,894,000 (2016: $289,500,000) of loans securitised to the Pinnacle RMBS Warehouse Trust.

All trusts are consolidated as part of the Group (note 15). In accordance with AASB 139 the mortgages securitised in the trusts remain on the balance sheet of the Bank.

Maturity period at 30 June 2017

	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Not later than one year	**109,530**	158,035	**109,530**	159,248
One year to five years	**63,610**	60,737	**63,610**	60,737
Over five years	**3,201,708**	2,944,004	**3,201,708**	2,944,004
	3,374,848	3,162,776	**3,374,848**	3,163,989

The maturity tables are based on contractual terms.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	2017	2016
	$000	$000	$000	$000
8 LOANS AND ADVANCES (continued)				
(a) Aggregate amounts receivable from related parties				
Key management personnel (as defined in note 27) and their related parties	6,276	6,092	6,276	6,092
	6,276	6,092	6,276	6,092
(b) Provision for impairment				
Specific provision				
Opening balance	4,999	3,777	4,999	3,777
Bad debts previously provided for written off	(1,924)	(1,747)	(1,924)	(1,747)
Bad and doubtful debts provided for during the year	3,555	2,969	3,555	2,969
Closing balance	6,630	4,999	6,630	4,999
(c) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	381	521	381	521
Personal loans	448	777	448	777
Home loans	6	449	6	449
Commercial & Property Finance	1,089	-	1,089	-
	1,924	1,747	1,924	1,747
9 DERIVATIVE FINANCIAL INSTRUMENTS				
Derivative financial assets				
Interest rate swaps - fair value through income statement - assets	318	-	318	-
Derivative financial liabilities				
Interest rate swaps - fair value through income statement - liabilities	336	-	-	-
Interest rate swaps - held as cash flow hedges - liabilities	426	1,448	426	1,448
	762	1,448	426	1,448

Notes to the Financial Statements

9 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Terms and conditions

At balance sheet date, the Group has interest rate swaps with a notional amount of $171,000,000 (2016: $177,000,000), on which it pays 1.62% to 3.72% (2016: 1.85% to 4.13%) interest and receives 1.62% to 1.78% (2016: 1.84% to 2.46%) interest calculated on the notional amount. At balance sheet date, P&N Bank has interest rate swaps with a notional amount of $126,000,000 (2016: $177,000,000), on which it pays 1.62% to 3.72% (2016: 1.85% to 4.13%) interest and receives 1.62% to 2.46% (2016: 1.84% to 2.46%) interest calculated on the notional amount.

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 to the income statement.

Amounts accumulated in other comprehensive income in respect of 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 in the following periods:

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Less than one year	**281**	523	**281**	523
More than one year but less than two years	**85**	402	**85**	402
More than two years but less than five years	**4**	523	**4**	523
Net deferred losses	**370**	1,448	**370**	1,448

(b) Fair value hierarchy

All of the Bank's interest rate swaps are classified using the fair value hierarchy level 2 observable inputs valuation techniques (note 1(r)). 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 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
10 AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in Cuscal (a)	**6,498**	4,813	**6,498**	4,813
Investment in Pindan Capital Two Rocks Trust (b)	**2,000**	2,000	**-**	-
Investment in Super Myway Pty Ltd	**64**	64	**64**	64
Investment in "Heron Park" at Harrisdale	**63**	63	**-**	-
	8,625	6,940	**6,562**	4,877

(a) Unlisted securities – investment in Cuscal

Cuscal is an unlisted public company. The only information it provides are annual audited financial statements and unaudited special purpose half year financial statements. 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 and dividend yields of similar investments (note 1(r)).

(b) Pindan Capital Two Rocks Trust

P&N Landreach Pty Ltd owns 2,000,000 units in the Pindan Capital Two Rocks Trust undertaking a development at Two Rocks.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
11 DUE FROM / TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	-	-	**33,316**	38,396
Deferred securitisation receivable	-	-	**63,744**	55,493
	-	-	**97,060**	93,889
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	-		**497,840**	447,838
	-	-	**497,840**	447,838

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 net. The gross amounts due were $805,357,000 (2016: $522,767,000).
The majority of the above amounts are to be recovered more than 12 months after balance sheet date.

12 PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements				
At cost *	**10,075**	13,530	**10,075**	13,530
Accumulated depreciation *	**(5,683)**	(8,855)	**(5,683)**	(8,855)
	4,392	4,675	**4,392**	4,675
Plant and equipment				
At cost *	**5,866**	10,853	**5,703**	10,690
Accumulated depreciation *	**(3,332)**	(8,338)	**(3,228)**	(8,261)
	2,534	2,515	**2,475**	2,429
Total property, plant and equipment	**6,926**	7,190	**6,867**	7,104

* Obsolete assets fully written down have been derecognised

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

	Consolidated			Police & Nurses Limited		
	Leasehold improvements	Plant and equipment	Total	Leasehold improvements	Plant and equipment	Total
	$000	$000	$000	$000	$000	$000
Carrying amount at 1 July 2015	4,869	2,626	7,495	4,869	2,512	7,381
Additions	1,189	763	1,952	1,189	763	1,952
Disposals	-	-	-	-	-	-
Depreciation expense	(1,383)	(874)	(2,257)	(1,383)	(846)	(2,229)
Carrying amount at 30 June 2016	4,675	2,515	7,190	4,675	2,429	7,104
Carrying amount at 1 July 2016	**4,675**	**2,515**	**7,190**	**4,675**	**2,429**	**7,104**
Additions	**1,368**	**1,062**	**2,430**	**1,368**	**1,062**	**2,430**
Disposals	**(192)**	**(54)**	**(246)**	**(192)**	**(54)**	**(246)**
Depreciation expense	**(1,459)**	**(989)**	**(2,448)**	**(1,459)**	**(962)**	**(2,421)**
Carrying amount at 30 June 2017	**4,392**	**2,534**	**6,926**	**4,392**	**2,475**	**6,867**

The majority of the above amounts have expected useful lives longer than 12 months after balance sheet date.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
13 INVESTMENT PROPERTY				
At fair value				
Opening balance	**21,425**	22,284	**-**	-
Net loss from fair value adjustment	**(1,331)**	(859)	**-**	-
Reclassification to asset held for sale (note 14)	**(20,094)**	-	**-**	-
Closing balance	**-**	21,425	**-**	-
The value of investment property immediately prior to reclassifying to assets held for sale was:				
Net value of property transferred from property, plant and equipment	**13,815**	13,815	**-**	-
Net gain from fair value adjustment	**6,279**	7,610	**-**	-
Investment property asset	**20,094**	21,425	**-**	-
Add: accrued amenities fees (note 7)	**7,215**	7,152	**-**	-
Add: reserve fund (note 7)	**2,745**	2,574	**-**	-
Add: cash	**630**	698	**-**	-
Less: provision for refurbishment (note 21)	**(3,375)**	(3,272)	**-**	-
Less: lease loan sum liability (note 19)	**(19,937)**	(19,937)	**-**	-
Fair Value of Investment Property	**7,372**	8,640	**-**	-
Reclassified to assets held for sale (note 14)	**(7,372)**	-	**-**	-
	-	8,640	**-**	-

(a) Description of investment property

The investment property is the Jacaranda Gardens Retirement Village, which is 100% owned by the Group.

(b) Amounts recognised in income statement for investment property

Other income - amenities fees and interest	**453**	636	**-**	-
Direct operating expenses from property that generated other income	**(401)**	(288)	**-**	-
Net loss on revaluation of investment property	**(1,331)**	(859)	**-**	-
	(1,279)	(511)	**-**	-

(c) Valuation & reclassification

Valuation basis

The basis of the valuation of the investment property is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction. The valuation is on the basis that the property must be sold as a whole and continue to be operated as a retirement village. Additionally, it is a requirement of the lease contract entered into with the residents for the community facilities of the retirement village to be maintained.

The basis for the valuation was determined by directors using standard market valuation methodology and a recently received expression of interest to acquire the retirement village.

Assumptions underlying the Directors' valuation

The value of the investment property is attributable to the future amenities fee income. This value has been determined on an assessment of discounted cash flows over a period of 30 years using the fair value level 3 unobservable methodology (note 1(r)). The discounted cash flows are based on the following assumptions:

Notes to the Financial Statements

13 INVESTMENT PROPERTY (continued)

(I) unit values are based on a weighted average of $407,857 (2016: $407,857) per unit;
(II) escalation factor of 1% in the first year and 3.5% for subsequent years (2016: 5.63%) attributable to the unit values which is the market determined long term growth rate for residential property, adjusted to reflect market conditions
(III) unit re-leasing rate equivalent to a comparison of current residents to life expectancy tables produced by the Australian Bureau of Statistics for Western Australia, coupled with a market determined rate of re-leasing occurring for reasons other than death;
(IV) rate of amenities fee income based on the length of anticipated occupancy;
(V) discount rate of 13.5% (2016: 13.5%) per annum pre-tax; and
(VI) current prevailing economic conditions.

The escalation factor and unit resale rate are based on historical external data and are not necessarily indicative of patterns that may occur. It is not possible to predict with accuracy the impact of future fluctuations in economic conditions on valuations in the future.

Representation of valuation in financial statements

The Directors' valuation less expected costs of disposal resulted in a net value of $7.4 million (2016: $8.6 million). This has been reflected in the financial statements in the table.

As at 30th June 2017, Directors decided to re-classify this investment as an asset held for sale (see note 14). The retirement village will be actively marketed at fair value by an agent that specialises in the sale of these types of investments and it is expected that the asset will be sold within 12 months.

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
14 ASSETS & LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE				
Assets held for sale				
Cash	**630**	-	**-**	-
Reserve fund (note 7)	**2,745**	-	**-**	-
Reclassified from investment property (note 13)	**20,094**	-	**-**	-
	23,469	-	**-**	-
Liabilities associated with assets held for sale				
Lease loan liability (note 19)	**(19,937)**	-	**-**	-
Less: accrued amenities fee (note 7)	**7,215**	-	**-**	-
Refurbishment Provision (note 21)	**(3,375)**	-	**-**	-
	(16,097)	-	**-**	-

The Directors have decided to sell the Jacaranda Gardens Retirement Village and have commenced marketing activities. 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. All assets and liabilities associated with the investment property have been reclassified as held for sale in the balance sheet.

Notes to the Financial Statements

15 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 2017	Consolidated					
	Interests in Controlled Entities		Shares Held in Controlled Entities			
			Held by the Bank	Held by other controlled entities	Held by the Bank	Held by other controlled entities
	2017 %	2016 %	2017 $	2017 $	2016 $	2016 $
Members Holding Company Pty Ltd	100	100	400,002	-	400,002	-
Advance Settlements Company Pty Ltd	-	100	-	-	1	19,999
P&N Landreach Pty Ltd	100	100	10	-	1,900	-
Essential Service Homes Pty Ltd	100	100	10,000	-	10,000	-
P&N Management Pty Ltd	100	100	60,000	-	60,000	-
National Home Loans Pty Ltd	100	100	61,500	-	61,500	-
Jacaranda Gardens Retirement Village	100	100	-	-	-	-
Police & Nurses Financial Planning Pty Ltd	65	65	2,550,080	-	2,550,080	-
Pinnacle RMBS Warehouse Trust No 1	100	100	-	-	-	-
Pinnacle Series Trust 2010 - T1	100	100	-	-	-	-
Pinnacle Series Trust 2013 - T1	100	100	-	-	-	-
Pinnacle Series Trust 2014 - SST	100	100	-	-	-	-
			3,081,592	-	3,083,483	19,999

Advanced Settlements Company Pty Ltd was deregistered on 31 May 2017.

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
16 INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	-	-
	1,572	1,572	-	-
Computer Software (ii)				
At cost **	**12,737**	30,065	**12,737**	30,065
Accumulated amortisation **	**(6,404)**	(22,772)	**(6,404)**	(22,772)
	6,333	7,293	**6,333**	7,293
Client list (iii)				
At cost	-	1,861	-	-
Accumulated amortisation	-	(1,861)	-	-
	-	-	-	-
Total intangible assets	**7,905**	8,865	**6,333**	7,293
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	**7,293**	8,394	**7,293**	8,394
Additions	**1,995**	1,779	**1,995**	1,779
Disposals	**(401)**	-	**(401)**	-
Amortisation charge *	**(2,554)**	(2,880)	**(2,554)**	(2,880)
Closing carrying amount	**6,333**	7,293	**6,333**	7,293
(iii) Client list				
Opening carrying amount	-	163	-	-
Amortisation charge *	-	(163)	-	-
Closing carrying amount	-	-	-	-

* The amortisation charge is included in depreciation and amortisation in the income statement.
** Obsolete assets fully written down have been derecognised.

(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.

Notes to the Financial Statements

16 INTANGIBLE ASSETS (continued)

(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 13.5% (2016: 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.

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017 $000	2016 $000	**2017 $000**	2016 $000
17 DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**2,055**	1,566	**2,055**	1,566
Deferred income	**-**	250	**-**	-
Provisions	**2,157**	2,252	**1,094**	1,207
Depreciation	**199**	212	**172**	180
Accruals	**203**	490	**174**	425
Capital tax losses	**555**	-	**-**	-
Other	**106**	109	**87**	90
	5,275	4,879	**3,582**	3,468
Amounts recognised in subsidiary's profit or loss				
Capital tax losses	**-**	-	**555**	-
Amounts recognised directly in equity				
Cash flow hedges	**111**	434	**111**	434
	5,386	5,313	**4,248**	3,902
Offset to deferred tax liabilities (note 22)	**(5,386)**	(5,313)	**(1,276)**	(825)
Net deferred tax assets	**-**	-	**2,972**	3,077
Movements:				
Opening balance	**5,313**	5,973	**3,902**	3,900
Credited/(charged) to the income statement (note 4)	**396**	(433)	**114**	229
Charged to intercompany payable	**-**	-	**555**	-
Charged to equity (note 4) & (note 23(c))	**(323)**	(227)	**(323)**	(227)
Closing balance	**5,386**	5,313	**4,248**	3,902

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017 $000	2016 $000	**2017 $000**	2016 $000
18 MEMBERS' DEPOSITS				
Call deposits	**1,018,850**	1,100,091	**1,020,518**	1,101,412
Term deposits	**1,814,850**	1,597,457	**1,814,850**	1,597,457
Withdrawable shares (a)	**856**	805	**856**	805
Related parties (b)	**2,695**	2,750	**2,695**	2,750
	2,837,251	2,701,103	**2,838,919**	2,702,424

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 31.

(a) There exists one class of withdrawable shares, and these are member shares and are redeemable on demand, subject to certain conditions. There were 88,192 (2016: 83,138) member shares on issue at the end of the year:

	2017 Number of shares	2016 Number of shares	**2017 Number of shares**	2016 Number of shares
Number of $10 shares	**82,894**	77,660	**82,894**	77,660
Number of $6 shares	**4,629**	4,776	**4,629**	4,776
Number of $0 shares	**669**	702	**669**	702
	88,192	83,138	**88,192**	83,138
Movements:				
Opening number of shares	**83,138**	78,693	**83,138**	78,693
New shares issued during the year	**7,875**	7,585	**7,875**	7,585
Resignations during the year	**(2,821)**	(3,140)	**(2,821)**	(3,140)
Closing balance	**88,192**	83,138	**88,192**	83,138

(b) Deposits for related parties are in relation to key management personnel and their related entities.

19 TRADE AND OTHER PAYABLES	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Accrued interest payable	**13,305**	11,452	**13,305**	11,452
Lease loan sums *	**-**	19,937	**-**	-
Other payables	**3,670**	9,330	**2,635**	8,483
	16,975	40,719	**15,940**	19,935

Trade and other payables are normally settled within 12 months other than lease loan sums.
* Reclassified as liabilities associated with assets held for sale. Refer to note 14.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
20 BORROWINGS				
Secured	**480,455**	441,016	**-**	-
Unsecured	**355,288**	306,179	**355,288**	306,179
	835,743	747,195	**355,288**	306,179
21 PROVISIONS				
Employee benefits (a)	**3,443**	3,908	**3,273**	3,695
Make good (b)	**372**	324	**372**	324
Refurbishment (c)	**-**	3,272	**-**	-
	3,815	7,504	**3,645**	4,019

(a) Provision for employee benefits

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

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

Within the next 12 months	**2,818**	3,264	**2,680**	3,129
Between one and two years	**76**	324	**76**	257
Later than two years	**549**	320	**517**	309
	3,443	3,908	**3,273**	3,695

(b) Provision for make good				
Opening balance	**324**	276	**324**	276
Make good provided for during the year	**48**	48	**48**	48
Closing balance	**372**	324	**372**	324

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 as follows:				
Between one and three years	**372**	324	**372**	324
	372	324	**372**	324

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
21 PROVISIONS (continued)				
(c) Provision for refurbishment				
Opening balance	**3,272**	3,069	**-**	-
Refurbishment previously provided for expensed	**(195)**	(53)	**-**	-
Refurbishment provided for during the year	**298**	256	**-**	-
Reclassified to liabilities associated with assets held for sale (note 14)	**(3,375)**	-	**-**	-
Closing balance	**-**	3,272	**-**	-

The provision for refurbishment is in relation to the Jacaranda Gardens Retirement Village and represents the funds which are accrued under the lease for life arrangement and which will be paid out when refurbishment of capital items within the retirement village is required. It is not possible to estimate the timing of the outflows relating to this provision. This provision has been reclassified to liabilities associated with assets held for sale (note 14).

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
22 DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**2,988**	2,967	**-**	-
Intangible assets - software	**98**	246	**98**	246
Inventory	**33**	62	**-**	-
Deferred Income	**41**	-	**-**	-
Fair value adjustment to investment property	**1,178**	2,273	**-**	-
Capital works	**880**	793	**-**	-
	5,218	6,341	**98**	246
Amounts recognised directly in equity				
Cash flow hedges	**95**	-	**95**	-
Available for sale financial assets	**1,083**	578	**1,083**	578
	6,396	6,919	**1,276**	824
Offset to / from deferred tax assets (note 17)	**(5,386)**	(5,314)	**(1,276)**	(824)
Net deferred tax liabilities	**1,010**	1,605	**-**	-
Movements:				
Opening balance	**6,919**	7,286	**824**	993
Charged/(credited) to the income statement (note 4)	**(1,028)**	(367)	**(53)**	(169)
Charged to equity (note 4)	**505**	-	**505**	-
Closing balance	**6,396**	6,919	**1,276**	824

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
23 RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**220,000**	220,000	**220,000**	220,000
Share capital reserve (b)	**823**	796	**823**	796
Cash flow hedge reserve (c)	**(259)**	(1,014)	**(259)**	(1,014)
Available for sale financial assets reserve (d)	**2,527**	1,348	**2,527**	1,348
	223,091	221,130	**223,091**	221,130
Retained earnings				
Balance at beginning of year	**38,763**	30,276	**37,710**	27,168
Profit for the year	**11,059**	8,517	**11,091**	10,572
Total available for appropriation	**49,822**	38,793	**48,801**	37,740
Amount transferred to share capital reserve (b)	**(27)**	(30)	**(27)**	(30)
Balance at end of year	**49,795**	38,763	**48,774**	37,710

(a) General reserve

The general reserve ensures that sufficient capital is retained by the Bank to comply with the capital adequacy requirements set by the Australian Prudential Regulation Authority. The reserve is eligible to be included as Tier 1 capital and meets the minimum level of capital adequacy as required under Prudential Standards 111 and 110 for ADIs. There was no movement in general reserve for the year.

(b) Share capital reserve				
Balance at beginning of year	**796**	766	**796**	766
Transfer from retained profits	**27**	30	**27**	30
Balance at end of year	**823**	796	**823**	796

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.

(c) Cash flow hedge reserve				
Balance at beginning of year	**(1,014)**	(1,542)	**(1,014)**	(1,542)
Revaluation of cash flow hedge instruments	**515**	191	**515**	191
Cash flow hedges recycled to income statement	**560**	564	**560**	564
Ineffective losses recognised in the income statement	**3**	-	**3**	-
Income tax on revaluation (note 17)	**(323)**	(227)	**(323)**	(227)
Balance at end of year	**(259)**	(1,014)	**(259)**	(1,014)

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(q). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
23 RESERVES AND RETAINED EARNINGS (continued)				
(d) Available for sale financial assets reserve				
Balance at beginning of year	**1,348**	1,348	**1,348**	1,348
Revaluation	**1,684**	-	**1,684**	-
Income tax on revaluation	**(505)**	-	**(505)**	-
Balance at end of year	**2,527**	1,348	**2,527**	1,348

Nature and purpose of available for sale financial assets reserve

The reserve is used to record gains resulting from increases in the fair value of available for sale financial assets (note 10(a)).

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
24 NOTES TO THE CASH FLOW STATEMENTS				
Reconciliation of the operating profit after tax to the net cash flows from operations				
Profit after income tax	**11,019**	8,550	**11,091**	10,572
Depreciation and amortisation	**5,002**	5,299	**4,974**	5,109
Bad and doubtful debts	**3,555**	2,969	**3,555**	2,969
Bad debts recovered	**(479)**	(415)	**(479)**	(415)
Loss on disposal of property, plant and equipment	**623**	-	**623**	-
Dividend received	**(409)**	(409)	**(426)**	(409)
Decrease in provisions	**(314)**	(2,170)	**(374)**	(2,338)
Decrease in loan interest receivable	**258**	600	**258**	600
Increase in other receivables	**(395)**	(26)	**(370)**	(291)
Decrease in inventory	**1,159**	204	**-**	-
Increase/(decrease) in member interest payable	**1,853**	(670)	**1,853**	(670)
Decrease in accrued expenses and trade and other payables	**(5,662)**	(7,215)	**(5,829)**	(3,216)
Decrease in current tax liabilities	**(632)**	(1,016)	**(550)**	(961)
Increase in deferred tax asset	**-**	-	**106**	(172)
(Decrease)/increase in deferred tax liabilities	**(1,367)**	293	**(772)**	-
Decrease/(increase) in sundry debtors and prepayments	**143**	(234)	**151**	(234)
Fair value adjustment to investment property	**1,331**	858	**-**	-
Net cash inflow from operating activities	**15,685**	6,618	**13,811**	10,544

The above cash flow statements are presented inclusive of cash flows from assets and associated liabilities held for sale.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	2017	2016
	$000	$000	$000	$000
25 EXPENDITURE COMMITMENTS				
a) Capital expenditure commitments				
Estimated capital expenditure for intangible software contracted for at balance sheet date but not provided for				
- payable not later than one year	1,515	1,966	1,515	1,966
b) Lease expenditure commitments				
Operating leases (non-cancellable)				
- not later than one year	6,005	5,858	6,005	5,858
- later than one year and not later than five years	7,818	10,937	7,818	10,937
- later than five years	213	159	213	159
Aggregate lease expenditure contracted for at balance sheet date	14,036	16,954	14,036	16,954

Significant leasing arrangements

The Bank has a leasing arrangement in place relating to its head office at 130 Stirling Street, Perth. The lease expires on 4 June 2019, with no right of renewal. The lease allows for annual rental increases of 4%.

26 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Credit related commitments				
Approved but undrawn loans and credit limits	371,657	358,434	371,657	358,434

The Bank has significant service contracts with Cuscal Limited. This entity provides the Bank with rights to the VISA card systems in Australia and provides settlement services with other financial institutions for ATM and VISA card transactions, BPay, cheque processing and direct entry transactions.

The Bank has entered the following financial arrangements with Cuscal.
- overdraft of $5,000,000 (unused as at 30 June 2017).
- lodged a settlement security deposit of $21,400,000 under the Standard Terms and Conditions.

Notes to the Financial Statements

Year Ended 30 June 2017		Consolidated		Police & Nurses Limited	
		2017	2016	**2017**	2016
		$	$	**$**	$
27	**KEY MANAGEMENT PERSONNEL DISCLOSURES**				
	Total key management personnel remuneration	**3,233,197**	2,944,339	**3,233,197**	2,944,339
	Short-term employee benefits	**2,637,492**	2,657,119	**2,637,492**	2,657,119
	Post-employment benefits	**250,120**	252,053	**250,120**	252,053
	Other long-term benefits	**14,936**	35,167	**14,936**	35,167
	Termination benefits	**330,650**	-	**330,650**	-
		3,233,198	2,944,339	**3,233,198**	2,944,339

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.

Included in the total key management personnel remuneration is Directors' remuneration (including superannuation contributions) of $524,821 (2016: $510,000).

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.

	2017	2016
	$	$
Loans outstanding to key management personnel and their related entities:		
Total loans	**6,275,504**	6,092,382
Of which, loans under normal member terms and conditions	**4,008,683**	4,287,582
Loan advances	**409,255**	3,943,321
Loan repayments	**990,961**	1,367,414
Interest on loans	**237,399**	274,707
Loans outstanding to key management personnel:		
Total discounted loans	**2,266,822**	1,804,800
Of which, unsecured loan balance	**-**	2,198
Loan advances	**3,364**	1,033,585
Loan repayments	**116,630**	118,580
Interest on loans	**75,796**	64,581
Deposits held by key management personnel and their related entities:		
Balance of deposits	**2,695,027**	2,749,643
Additional deposits	**6,108,412**	5,806,683
Withdrawals	**5,927,544**	5,856,611
Interest on deposits	**35,963**	34,129

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
28 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:				
relating to prior year	**11**	43	**11**	43
relating to current year	**181**	175	**181**	175
- other assurance services	**121**	118	**86**	83
	313	336	**278**	301
b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
- taxation advice	**109**	61	**80**	61
- consulting	**47**	30	**47**	30
- other	**1**	-	**1**	-
	157	91	**128**	91
Total auditor's remuneration	**470**	427	**406**	392

29 INVESTMENTS IN JOINT ARRANGEMENTS

The Group has a 33.33% interest in the Eagle Bay Joint Venture (domiciled in Australia) to develop a subdivision of land for residential housing.

The Group's interests in the assets and liabilities employed in joint operations are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

Year Ended 30 June 2017	Consolidated	
	2017	2016
	$000	$000
Cash and cash equivalents	**336**	12
Trade and other receivables	**-**	331
Inventories (land held for sale)	**866**	1,876
Share of assets employed in joint operations	**1,202**	2,219
Other liabilities	**292**	329
Share of liabilities employed in joint operations	**292**	329

29 INVESTMENTS IN JOINT ARRANGEMENTS (continued)

The income and expenses related to the Group's interests in the joint operations are included in the consolidated income statement, in accordance with the accounting policy described in note 1(b), under the following classifications:

	Consolidated	
	2017	2016
	$000	$000
Revenue from sale of property developments	**1,390**	556
Share of income in joint operations	**1,390**	556
Property development costs	**1,106**	481
Other expenses	**148**	279
Share of expenses in joint operations	**1,254**	760

30 RELATED PARTY DISCLOSURES

The Bank charges its controlled entities for occupancy and other costs.

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

The Bank transacted with its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in note 4.

	Police & Nurses Limited	
	2017	2016
	$000	$000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the Group:		
Interest revenue	**17,973**	19,417
Interest expense	**34,241**	29,193
Securitisation service fee revenue	**3,636**	2,888
Dividend revenue	**17**	600
Other income	**520**	546
Aggregate amounts receivable from entities in the Group at balance sheet date	**97,060**	93,889
Aggregate amounts payable to entities in the Group at balance sheet date	**497,840**	447,838

Notes to the Financial Statements

Year Ended 30 June 2017

31 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 developing and monitoring risk management policies. The Committee reports regularly to the Board on its activities.

Risk management policies are established to identify and analyse the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and 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 obligations.

The Risk Committee oversees how management monitors compliance with the Bank's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and the Group. The Risk Committee 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.

a) Market risk management - objectives and policies

Market risk exposure is the risk that the fair value or future cash flows from banking activities will fluctuate because of changes in market rates. The Bank's only exposure is to changes in interest rates as it does not have any dealings in foreign currencies, commodities or equity products. The Bank does not have a trading book and uses derivatives to minimise exposures arising out of normal banking activities as part of its hedging strategy. The Bank applies a 'Value at Risk' methodology (VaR) to its non-trading portfolio to estimate the market risk of positions taken and the maximum losses expected based upon a number of assumptions for various changes in market conditions.

The largest risk exposure is the repricing risk associated with the Bank's fixed rate lending and fixed term deposit portfolios, though these are off-set with the risk being largely removed through the utilisation of derivative contracts provided by third parties which swap the longer fixed rate exposures for short-term variable rate exposures.

The Bank manages limits and controls its market risk through its Assets and Liabilities Committee reporting via the Risk Committee to the Board. The Bank calculates its VaR and compares this result with limits set and approved by the Board. The Bank structures the levels of market risk it accepts by placing limits on the amount of exposure in different time periods and the overall exposure. Such risks are governed by the Market Risk Management Policy and monitored on an ongoing basis with annual reviews by the Board.

Significant policies and processes for managing risk include:

- adherence to market risk policy;
- independent interest rate sensitivity analysis;
- independent VaR and market risk exposure review on a monthly basis;
- limits in relation to VaR and market risk exposures;
- independent duration and gap analysis; and
- independent hedging review and recommendations.

The Bank's market risk exposure is considered to be consistent with what are normal acceptable industry levels for an entity without a trading book and hence it is considered that the market risk is low.

Year Ended 30 June 2017

31 FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity analysis

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.

	Consolidated				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2017					
Cash and cash equivalents	**134,011**	**1,325**	**-**	**(1,248)**	**-**
Due from financial institutions	**394,768**	**3,949**	**-**	**(3,949)**	**-**
Loans (i)	**3,374,848**	**29,686**	**-**	**(29,686)**	**-**
Derivatives	**(444)**	**(1)**	**683**	**1**	**(474)**
Members' deposits (ii)	**(2,837,251)**	**(17,263)**	**-**	**17,263**	**-**
Borrowings	**(835,743)**	**(8,357)**	**-**	**8,357**	**-**
Total increase / (decrease)	**230,189**	**9,339**	**683**	**(9,262)**	**(474)**
2016					
Cash and cash equivalents	164,351	1,619	-	(1,552)	-
Due from financial institutions	341,378	3,402	-	(3,402)	-
Loans (i)	3,162,776	27,101	-	(27,101)	-
Derivatives	(1,448)	-	248	-	(248)
Members' deposits (ii)	(2,701,103)	(2,834)	-	2,834	-
Borrowings	(747,195)	(7,472)	-	7,472	-
Total increase / (decrease)	218,759	21,816	248	(21,749)	(248)

(i) 1% shift applied to the value of variable loans held at year end calculated on $2,968,593,000 (2016: $2,710,106,000). The remaining balance represents fixed rate loans for 2016/2017.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $1,619,083,000 (2016: $1,100,091,000). The remaining balance represents fixed rate deposits for 2016/2017.

Notes to the Financial Statements

Year Ended 30 June 2017	**Police & Nurses Limited**				
31 FINANCIAL RISK MANAGEMENT (continued)		**+100bp**		**-100bp**	
	Carrying amount	**Income statement**	**Other movements in equity**	**Income statement**	**Other movements in equity**
	$000	**$000**	**$000**	**$000**	**$000**
2017					
Cash and cash equivalents	**87,092**	**856**	**-**	**(779)**	**-**
Due from financial institutions	**394,768**	**3,949**	**-**	**(3,949)**	**-**
Loans (i)	**3,374,848**	**29,686**	**-**	**(29,686)**	**-**
Derivatives	**(108)**	**1,315**	**683**	**(1,275)**	**(474)**
Members' deposits (ii)	**(2,838,920)**	**(17,263)**	**-**	**17,263**	**-**
Borrowings	**(355,288)**	**(3,553)**	**-**	**3,553**	**-**
Due to controlled entities	**(497,840)**	**(4,805)**	**-**	**4,805**	**-**
Total increase / (decrease)	**164,552**	**10,185**	**683**	**(10,068)**	**(474)**
2016					
Cash and cash equivalents	110,060	1,239	-	(1,172)	-
Due from financial institutions	341,378	3,402	-	(3,402)	-
Loans (i)	3,163,989	27,101	-	(27,101)	-
Derivatives	(1,448)	-	420	-	(420)
Members' deposits (ii)	(2,702,424)	(2,834)	-	2,834	-
Borrowings	(306,179)	(3,062)	-	3,062	-
Due to controlled entities	(447,838)	(9,706)	-	9,706	-
Total increase / (decrease)	157,538	16,140	420	(16,073)	(420)

(i) 1% shift applied to the value of variable loans held at year end calculated on $2,968,593,000 (2016: $2,710,106,000). The remaining balance represents fixed rate loans for 2016/2017.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $1,619,083,000 (2016: $1,100,091,000). The remaining balance represents fixed rate deposits for 2016/2017.

Notes to the Financial Statements

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
31 FINANCIAL RISK MANAGEMENT (continued)	**2017**	2016	**2017**	2016
	$000	$000	**$000**	$000
Fair value of interest rate swaps				
Fair value estimation - interest rate swaps - asset	**318**	-	**318**	-
Fair value estimation - interest rate swaps - (liability)	**(762)**	(1,448)	**(426)**	(631)

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.

b) Liquidity risk management - objectives and policies

Liquidity risk is the risk that the Bank 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 Bank manages limits and controls its liquidity risk through its Assets and Liabilities Committee reporting via the Risk Committee to the Board. The Bank structures the levels of liquidity risk it accepts by placing minimum limits on the amount of liquidity held. Such risks are governed by policies and monitored on an ongoing basis with annual reviews by the Board.

The Bank sets aside a portfolio of high quality liquid assets at all times. The Bank's liquid assets are predominantly cash and short-term investments in debt securities.

Financing arrangements

Liquidity support is available in the form of $5,000,000 (2016: $10,000,000) of overdraft facility with Cuscal. This facility was undrawn as at 30 June 2017.

Also maintained by the Bank are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of $375,000,000 (2016: $350,000,000), of which $16,706,000 (2016: $67,700,000) was available at 30 June 2017; and
- a self securitisation facility under the Pinnacle Series Trust 2014-SST of $835,000,000 (2016: $550,000,000). The A notes (AAA rated) of $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 crisis scenario.

The Group and the Bank had access to the following undrawn borrowing facilities at 30 June 2017:

Year Ended 30 June 2017	Consolidated		Police & Nurses Limited	
	2017	2016	**2017**	2016
	$000	$000	**$000**	$000
Floating rate				
Expiring within one year (overdraft facilities)	**5,000**	10,000	**5,000**	10,000
	5,000	10,000	**5,000**	10,000

Notes to the Financial Statements

Year Ended 30 June 2017

31 FINANCIAL RISK MANAGEMENT (continued)

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

	Consolidated			
	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000
Maturities of financial liabilities				
2017				
Borrowings	**-**	**281,101**	**432,481**	**122,161**
Members' deposits	**1,018,322**	**1,014,230**	**718,693**	**86,006**
Derivative financial instruments	**-**	**6**	**137**	**301**
	1,018,322	**1,295,337**	**1,151,311**	**208,468**
2016				
Borrowings	-	253,416	52,768	441,011
Members' deposits	1,100,091	1,050,618	469,684	80,710
Derivative financial instruments	-	55	467	926
	1,100,091	1,304,089	522,919	522,647

	Police & Nurses Limited			
	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000
Maturities of financial liabilities				
2017				
Borrowings	**-**	**281,101**	**74,187**	**-**
Members' deposits	**1,018,322**	**1,015,899**	**718,693**	**86,006**
Derivative financial instruments	**-**	**6**	**137**	**(35)**
	1,018,322	**1,297,006**	**793,017**	**85,971**
2016				
Borrowings	-	253,416	52,763	-
Members' deposits	1,101,412	1,050,618	469,684	80,710
Derivative financial instruments	-	55	467	926
	1,101,412	1,304,089	522,914	81,636

31 FINANCIAL RISK MANAGEMENT (continued)

c) Credit risk management - objectives and policies

Credit risk is the risk of a counterparty failing to meet contractual obligations as they fall due.
Credit risk may arise from both lending activities to members and liquidity investments in banks.
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 II 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 Bank's credit risk policies from the prior year other than ensuring P&N is operating in alignment with industry standards and regulator expectations.

The loan portfolio of the Bank does not include any loan which represents 10% or more of capital.

Notes to the Financial Statements

Year Ended 30 June 2017	Credit risk rating						
31 FINANCIAL RISK MANAGEMENT (continued)	Maximum exposure to credit risk	Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6 (managed)
2017	$000	$000	$000	$000	$000	$000	$000
Derivatives	318	318	-	-	-	-	-
Fully performing loans							
Home loans	3,052,202	2,718,302	315,801	18,099	-	-	-
Secured overdrafts	38,347	38,100	247	-	-	-	-
Commercial loans	44,545	4,364	808	8,914	19,630	7,028	3,801
Personal loans	43,717	-	-	-	43,717	-	-
Unsecured overdrafts and credit cards	22,977	-	-	-	-	22,977	-
Total fully performing loans	3,201,788	2,760,766	316,856	27,013	63,347	30,005	3,801
Past due loans							
Home loans							
1-7 days	22,573	21,519	1,054	-	-	-	-
8-30 days	20,559	18,374	1,945	240	-	-	-
31-60 days	5,826	3,613	2,209	4	-	-	-
61-89 days	3,846	3,062	330	454	-	-	-
Total	52,804	46,568	5,538	698	-	-	-
Security held (1)	87,973						
Secured overdrafts							
1-7 Days	599	599	-	-	-	-	-
8-30 Days	578	578	-	-	-	-	-
31-60 days	101	101	-	-	-	-	-
Total	1,278	1,278	-	-	-	-	-
Security held (1)	7,974						
Personal loans							
1-7 days	391	-	-	-	391	-	-
8-30 days	679	-	-	-	679	-	-
31-89 days	406	-	-	-	406	-	-
Total (3)	1,476	-	-	-	1,476	-	-
Unsecured overdrafts and credit cards							
1-7 days	6,609	-	-	-	-	6,609	-
8-30 days	7	-	-	-	-	7	-
Total	6,616	-	-	-	-	6,616	-
Total past due loans	62,173	47,846	5,538	698	1,476	6,616	-
Impaired loans							
Home loans							
90 days plus	18,004						
Security held (1)	21,514						
Commercial Loans							
90 days plus	12,984						
Security held (2)	9,738						
Personal loans							
90 days plus	354						
Unsecured overdrafts and credit cards							
90 days plus	1,324						
Total impaired loans	32,666						
Securitised loans	84,851						
Total loans portfolio	3,381,478						

Notes to the Financial Statements

Year Ended 30 June 2017 — **Credit risk rating**

31 FINANCIAL RISK MANAGEMENT (continued)	Maximum exposure to credit risk	Grade 1 (low)	Grade 2 (sound)	Grade 3 (stable)	Grade 4 (moderate)	Grade 5 (acceptable)	Grade 6 (managed)
2016	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Derivatives	(1,448)	(1,448)	-	-	-	-	-
Fully performing loans							
Home loans	2,783,312	2,370,153	391,871	21,288	-	-	-
Secured overdrafts	42,684	42,432	247	5	-	-	-
Commercial loans	62,014	4,198	1,338	9,343	28,416	12,569	6,150
Personal loans	46,363	-	-	-	46,363	-	-
Unsecured overdrafts and credit cards	20,516	-	-	-	-	20,516	-
Total fully performing loans	2,954,889	2,416,783	393,456	30,636	74,779	33,085	6,150
Past due loans							
Home loans							
1-7 days	31,418	27,680	3,345	393	-	-	-
8-30 days	30,022	22,427	7,000	595	-	-	-
31-60 days	4,376	4,137	239	-	-	-	-
61-89 days	3,558	2,703	389	466	-	-	-
Total	69,374	56,947	10,973	1,454	-	-	-
Security held (1)	120,299						
Secured overdrafts							
31-60 days	61	61	-	-	-	-	-
Security held (1)	428						
Personal loans							
1-7 days	1,183	-	-	-	1,183	-	-
8-30 days	1,340	-	-	-	1,340	-	-
31-89 days	470	-	-	-	470	-	-
Total (3)	2,993	-	-	-	2,993	-	-
Unsecured overdrafts and credit cards							
1-7 days	5,996	-	-	-	-	5,996	-
Total past due loans	78,424	57,008	10,973	1,454	2,993	5,996	-
Impaired loans							
Home loans							
90 days plus	7,011						
Security held (1)	5,428						
Commercial Loans							
90 days plus	16,098						
Security held (2)	10,817						
Personal loans							
90 days plus	180						
Unsecured overdrafts and credit cards							
90 days plus	1,222						
Total impaired loans	24,511						
Securitised loans	109,951						
Total loans portfolio	3,167,775						

(1) Home loans are secured by registered mortgages over residential properties. Lenders mortgage insurance contracts are entered into as part of the Bank's lending policy to manage credit risk in the home lending portfolio.

(2) Commercial loans are secured by registered mortgages over commercial or residential properties. Certain commercial loans on the watch list are included in Grades 5 and 6.

(3) Personal loans are provided on both a secured or unsecured basis. Secured loans are secured by a goods mortgage over motor vehicles.

31 FINANCIAL RISK MANAGEMENT (continued)

d) Capital management

The Bank maintains an appropriate level of capital commensurate with the level and extent of risks to which the Bank is exposed from its activities. The purpose of capital is to absorb losses from loans, investments and general operations. Capital also functions as a cushion against credit risk, liquidity risk, interest rate risk, operational risk and other risks. Capital allows for operational growth and is designed to maintain the confidence of depositors and creditors. The Bank has in place an Internal Capital Adequacy Assessment Process "ICAAP" that includes:

- adequate systems and procedures in place to identify, assess, measure, monitor and manage the risks arising from its activities on a continuous basis to ensure that capital is held at a level consistent with the Bank's risk profile; and
- a capital management plan, consistent with the overall business plan, for managing its capital levels as a buffer against the risks involved in the Bank's activities on an ongoing basis. The capital management plan not only measures current capital requirements after the consideration of risk but also projects forwards (one to three years), managing the balance sheet within the Bank's risk parameters.

The capital management plan includes a capital management strategy which includes the capital target for providing a buffer against risk, 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 and reported to the Board, to ensure compliance with the minimum capital ratio. The actual level of capital adequacy is also calculated every quarter and reported to APRA.

The Bank 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 as well as for other risk positions.

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.

	Consolidated		Police & Nurses Limited	
	2017 Unaudited	2016 Audited	**2017 Unaudited**	2016 Audited
Capital adequacy ratio as reported to APRA at 30 June	**14.54%**	14.44%	**14.63%**	14.55%

Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 22 to 66 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 2017 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
Director

S J MELVILLE
Director

Date: 28 August 2017
PERTH, WA

Independent Auditor's Report

Independent auditor's report

To the shareholders 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 2017 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 2017
- 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 for the year then ended
- the Consolidated and Company 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 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* (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 obtained at the date of this auditor's report comprises the Report of the Directors included in the annual report, but does not include the financial report and our auditor's report thereon.

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

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In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 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 *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 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 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/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll

Justin Carroll
Partner

Perth
28 August 2017

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