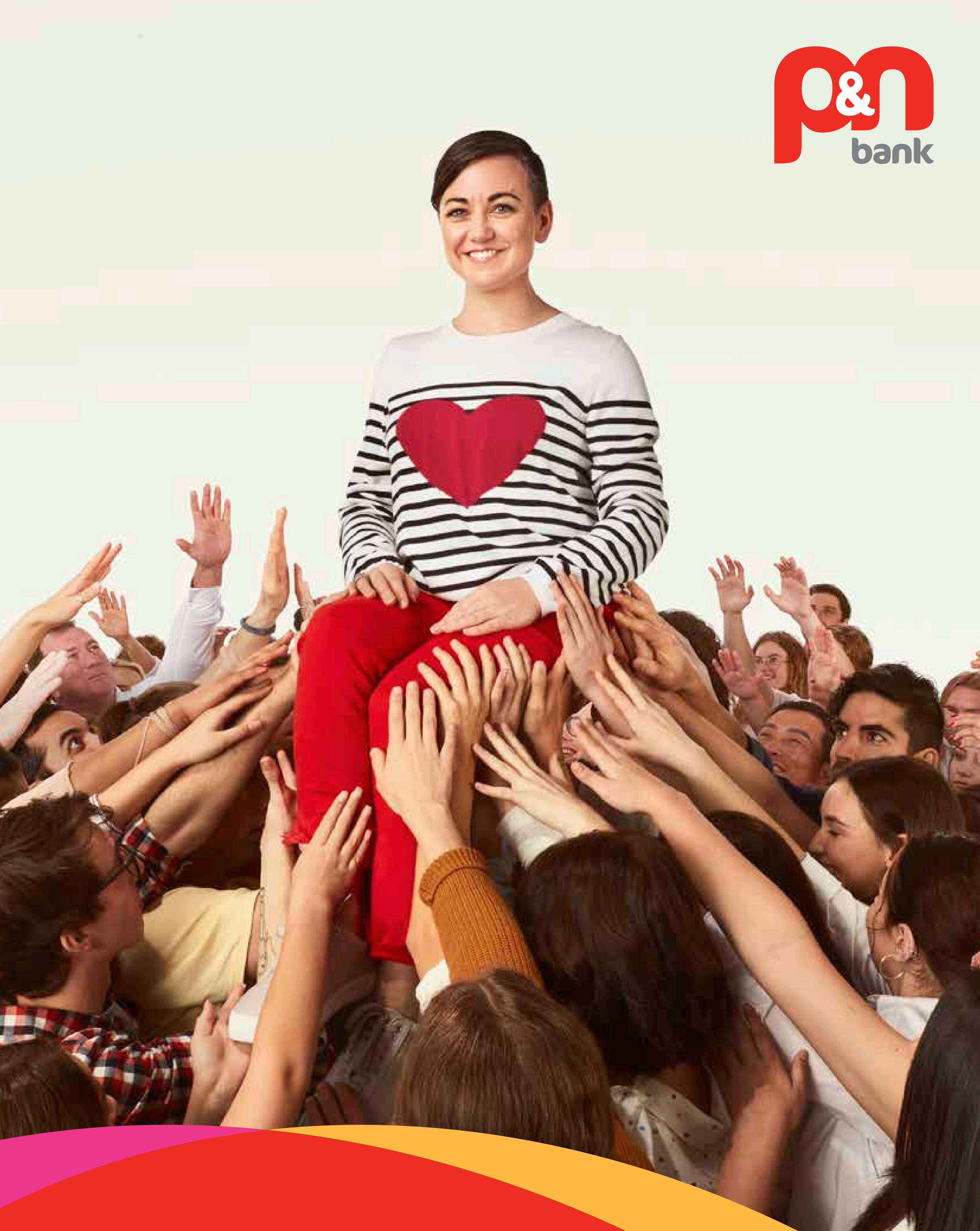


Annual Report
2018

Directory

Directors

Paul Marshall Gabb (Chair)
Stephen John Melville (Deputy Chair)
Michelle Louise Fyfe
(resigned 8 June 2018)
Julie Ann Elliott
Wayne Gregson
Eric Laurence Smith
Kellie Louise Properjohn
(appointed 13 November 2017)
Edwin Roy Bradley
Andrew Douglas Hadley
Trevor Joel Hunt
(appointed 16 July 2018)

Chief Executive Officer

Andrew Douglas Hadley

Company Secretary

Jacqueline Anne Donald

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

By coming together we're stronger than we could ever be alone.

Cover: P&N member Kristy explaining why she loves P&N as part of our "Why is we better for me?" marketing campaign.

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 27 August 2018. 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 2018 can be found here: **https://www.pnbank.com.au/about/corporate-information/corporate-details/**

	2013	2014*	2015	2016	2017	2018	5 year CAGR**	1 year CAGR**
Total loans under management ($m)	2,386	2,450	2,615	3,163	3,375	3,551	8.28%	5.23%
Total assets under management ($m)	2,845	2,910	3,064	3,761	3,985	4,149	7.84%	4.11%
Deposits ($m)	2,032	2,293	2,387	2,701	2,837	2,971	7.89%	4.70%
Reserves ($m)	232.8	241.0	251.5	260.5	273.5	285.8	4.19%	4.51%
Group NPAT^ ($m)	13.1	8.2	9.3	8.5	11.1	12.1	-1.55%	9.60%
Bank NPAT^ ($m)	12.1	8.9	10.2	10.6	11.1	12.2	0.06%	9.64%

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

Board Members

Paul Marshall Gabb
Chair

Stephen John Melville
Deputy Chair

Edwin Roy Bradley
Director

Julie Ann Elliott
Director

Michelle Louise Fyfe
Director (resigned June 2018)

Wayne Gregson
Director (retiring Nov 2018)

Andrew Douglas Hadley
Director

Trevor Joel Hunt
Director (appointed July 2018)

Kellie Louise Properjohn
Director

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

Anna Pearce
General Manager
Member Experience

Erik Fenna
Chief Information Officer

Kim Radalj
General Manager
Strategy & Development

Jill Marks
General Manager
Business Transformation

Chair's Report

I am pleased to present our 2018 Annual Report.

A successful year

P&N has enjoyed a successful year despite a challenging economy, a flat WA housing market and a fiercely competitive banking landscape.

Most importantly, with our purpose centred firmly on enriching the lives of our members and their communities, you, our members remain at the heart of everything we do.

Whether it be product development, new branch layouts and designs, digital banking innovation, deposit and lending rates, fees, or community support, our members have, and always will be, at the forefront of every decision we make.

Under the strong leadership of our CEO and his Executive team, P&N has not only achieved a solid year of growth, but has continued to position itself as a market leader in terms of customer satisfaction, member advocacy and innovation.

A Variety Youth Choir member at our 2018 Flourish community event

Trust

The member-owned banking sector is characterised by superior customer service levels, strong advocacy and high trust, and offers a compelling and diverse alternative to the major listed banks.

As a member-owned bank, P&N's model is innately transparent and member-centric. Without the tension of investor shareholders, our aim is to build strong and trusted relationships with each and every P&N member.

A key topic in banking this year has been the Hayne Royal Commission into Misconduct in Banking, Superannuation and Financial Services which has uncovered some stark findings in relation to the conduct of the major banks and insurers.

P&N were not required to make a submission to the Hayne Royal Commission, however we chose to provide a detailed submission to the Productivity Commission Review into Competition where we highlighted some of the existing anti-competitive regulations that favour the major listed banks.

While P&N Bank staunchly advocates a stable, competitive and sustainable banking sector on behalf of all Australians, we believe that the current major bank oligopoly and the competitive advantage they enjoy on a number of fronts remains anti-competitive to the sector.

With the increasing regulatory burden impacting smaller banking organisations disproportionately, together with the inherent competitive inconsistencies, we were pleased with the final recommendations from the Productivity Commission to the Federal Treasurer which acknowledge a range of issues. Should these recommendations be adopted, they will go some way to redressing the competitive imbalance between smaller organisations such as P&N Bank and the majors, which will in turn benefit our members.

With so much emphasis on mistrust in the financial services sector, I would like to reiterate that your Board and Executive continue to keep a close eye on the developments from the Royal Commission and other important regulatory reviews. While our model is inherently ethical, it is essential that our organisation continues to be prepared for the increased regulation that is no doubt in the pipeline.

"… P&N has not only achieved a solid year of growth, but has continued to position itself as a market leader in terms of customer satisfaction, member advocacy and innovation."

Our community

P&N's purpose is to enrich the lives of our members and their communities.

It is therefore vitally important that our members feel connected and engaged with P&N's community activities.

In the past year, members have directed support to disadvantaged individuals, families and small not-for-profit groups through our Helping &nds program, creating moments of genuine delight and gratitude from the recipients of these grants.

And it's not only the number of people who receive assistance but more particularly the heartfelt stories of the recipients that underscore why we would like all of our members to be familiar with this program.

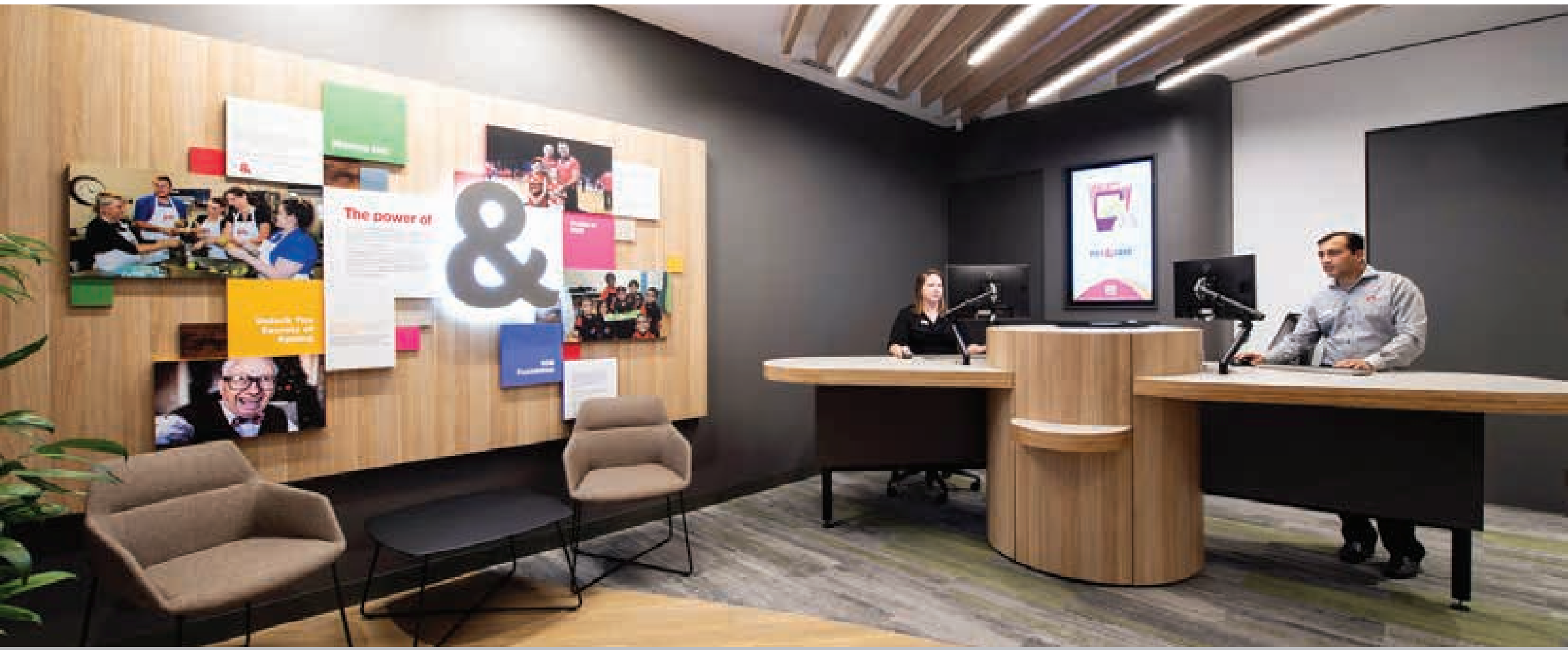
This year members have used P&N Helping &nds to put food on the table of disadvantaged families, purchase work uniforms, pay bills and, in one case, provide funds to repair a residential floor for a wheelchair bound person.

So I do encourage you to visit our website or talk to one of our staff to learn more about P&N's Helping &nds program so that you can help your neighbour, friend or colleague if they are struggling through a tough time.

P&N's community partnerships with Variety WA, Alongside, The Fathering Project and Lifeline WA continue to flourish. Once again, our annual community partnership event provided these groups with the chance to share firsthand how they are supporting and changing WA lives for the better. Other guests at our annual event included Helping &nds recipients and the members who nominated them, as well as families and volunteers from our community partner groups. Many of the guests agreed that the highlight of the evening was a performance by the Variety Youth Choir which delighted everyone fortunate to be present.

Our Local Heroes program has been very active supporting the Police Excellence Awards, the Nursing and Midwifery Awards, a new partnership with Crime Stoppers WA and a major sponsorship of the October 2018 Australasian Police & Emergency Services Games in Mandurah.

I encourage all our members to become involved in the range of community activities that we undertake on your behalf.



Our new Discovery Store design at Maddington

Chair's Report

Our Board

The majority of the Police & Nurses Limited Board comprise member-elected Directors who work alongside the three Board appointed Directors.

To continue to deliver value to members, P&N Bank needs a strong and effective Board to successfully shape the strategic direction of the Bank. This requires a Board that collectively possess the balance of skills and experience to foresee the challenges and seize the opportunities inherent in this increasingly complex banking environment.

The governance responsibilities for directors of Australian banking institutions, which are already very significant, will only increase given the current regulatory environment and scrutiny of the banking sector.

For these reasons, it remains important that P&N Bank attracts and retains Directors of the appropriate calibre to effectively govern, manage and shape the strategic direction of the Bank.

I certainly believe that our Board is well placed to undertake this important role on your behalf with relevant, diverse and deep levels of expertise across the business, banking and risk spectrum.

As part of this year's AGM process, we introduced online direct voting so that more members could have their say as to how P&N is governed. This is an important difference between our model and that of the listed banks and I trust that you will continue to take the opportunity to actively participate in the business of governing your Bank.

Our Board has undergone a few changes this year with the resignation of Michelle Fyfe in June and more recently Wayne Gregson's decision not to renominate for a further term.

Michelle resigned to take up a new opportunity as the CEO of St John Ambulance and I would officially like to thank her for her dedication to P&N. Michelle has served on the Police & Nurses Limited Board for over eight years and we are very grateful for her commitment to our members and the roles she has played on various Board Committees, including as Chair of the Board Governance & Remuneration Committee. We wish Michelle and her family the very best in the future.

In farewelling Michelle, we welcomed Trevor Hunt who was appointed to the P&N Board in July to fill the casual vacancy left by Michelle. Trevor has a deep level of understanding, capability and experience in banking, superannuation and broader financial services developed over 40 years and has nominated as a candidate in this year's member elected Directors' Ballot.

I would also like to take this opportunity to thank Wayne Gregson for his service and dedication to the Police & Nurses Limited Board for over eight years and acknowledge his key role on various Board Committees over that time. Wayne has chosen not to run for a further term as a member elected Director and his term of office concludes at the end of the 2018 Annual General Meeting. Wayne and his family go with the very best wishes of the Board and Executive.

Final words from the Chair

It has certainly been another very busy year at P&N with solid results and strong performance.

I would like to thank our highly engaged and committed Board of Directors who continue to support me and provide valuable counsel throughout the year.

To our CEO, Andrew Hadley, the Executive, management and staff, I would sincerely like to thank you all for your dedication, hard work and continuing focus on our members. I have heard many anecdotes of the genuine relationships that exist between our staff and members and it's these relationships that set P&N apart.

In closing, I would like to thank you, our members for your loyalty, commitment and connection to P&N.

Whether you are a longstanding member or are new to P&N, our aim is to provide all our members with a superior banking experience both now and in the future.

As we look to the future, there will no doubt be challenges along the way but I am very confident that we have the right governance, strategy, structures and people in place to continue to make our members' experience and relationship with P&N even better.

"... I am very confident that we have the right governance, strategy, structures and people in place to continue to make our members' experience and relationship with P&N even better."

P.M. Gabb

Paul M Gabb
Chair

CEO's Report

P&N has again withstood difficult conditions to deliver a solid profit of $12.2 million up 9.6% from the previous year, and against a backdrop of global uncertainty, a challenging domestic economy, increasing regulatory burden and highly competitive banking environment.

With a clear, focussed strategy and a highly dedicated team, we have delivered a significant number of projects and improvements across the Bank.

We continued to work hard for our members with some standout results in terms of member satisfaction and advocacy. Your Bank continues to feature at the top of the independent Roy Morgan Best Bank Customer Satisfaction Monitor each month and our Net Promoter Score, a global measure which indicates how likely our members are to recommend us, is at a world-class level for our category. While there is always room for improvement, this tells me that our members, in the main, are enjoying their experience with us.

For the second consecutive year, P&N was awarded the Best Mutual in the 2018 RFi Lending Awards. This underscores the investment we have made across our entire business, not just in terms of lending products, but also in terms of the optimised service our members enjoy through efficient loans processing and settlements.

With a focus on continuing to improve our member experience, it is in the areas of robotic processing automation and digital banking innovation that P&N has made ground-breaking technological advances over the past year.

"We continue to establish ourselves as a leading digital innovator and collaborator, working with like-minded partners to develop digital banking solutions that offer convenience to our members and hold appeal for potential new members."

Cutting edge robotic process automation

Working with specialist partners, P&N has become a market leader in developing operational robotic processes that are already saving our teams significant time each day and allowing them to focus on more value adding interactions with our members.

P&N has received global attention for the innovative approach that we have taken with our partners to improve our member and staff experience through robotics processing and, as this is only the start of our journey, I am very excited at what the future holds for our members as we continue to develop and improve.

Australian-first digital technology

Every day, new and more convenient digital technologies are appearing across the globe and it is essential that in order to remain relevant, we continue to develop our strategic digital capability to offer our members the best possible online and mobile experience.

It would be easy for some to assume that because of our size, we are not as up to date with digital banking channels and the same digital convenience as the larger banks however this is definitely not the case.

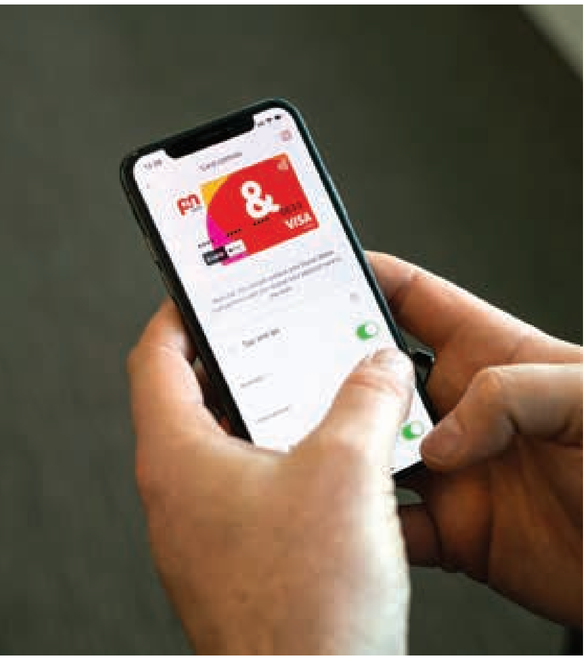
We continue to establish ourselves as a leading digital innovator and collaborator, working with like-minded partners to develop digital banking solutions that offer convenience to our members and hold appeal for potential new members.

In 2016, P&N was one of the first banks in Australia to offer our members the convenience of all three digital wallets, Apple Pay, Samsung Pay and Google Pay™, with some banks still not offering this convenient solution to their customers.

During the past year, we were also one of the first banks to adopt the Reserve Bank's New Payments Platform technology to deliver our members the ability to make and receive instant payments. Our members can now pay their friends and family digitally in the same time it takes to make a physical cash payment providing all parties are registered with a participating bank.

P&N member Pearl assisted by Daniel

The P&N Business Process Improvement Team at work



New P&N Card Controls

The grand opening of our new Bull Creek Discovery Store

More recently and most notably, P&N have removed a significant pain point for members in regards to lost or stolen cards. We were the first bank in Australia to offer our members an instant digital card for new debit cards as well as the instant replacement of a lost or stolen debit or credit card. Our members can now also enjoy our new set of card controls allowing them to take the reins in managing their own preferences via our mobile app or online banking.

We have had significant feedback and take-up from members who are enjoying greater control over their cards and who appreciate the benefit of no longer waiting up to 14 days to receive a lost or stolen replacement card in the mail.

With the successful deployment of these new technologies, P&N is at the vanguard of a number of other collaborative partnerships, working together on other convenient and valuable banking solutions that will remove more of the pain points that come with outdated banking technologies.

As changes in Open Banking and other global initiatives become a reality in Australia, I can assure our members that we intend to remain on the front foot in further developing collaborative opportunities and capitalising on our digital capability to provide meaningful benefits to members.

CEO's Report

Our Discovery Stores

Our membership spans all age groups and lifestyles with every member deserving the same seamless and exceptional experience regardless of the service channel they use.

While our digital channels gain in popularity, and our Perth based Contact Centre assists our members six days a week, we remain committed to providing a physical presence for those members who enjoy face-to-face conversations as part of a more personal banking experience.

This year we have invested in upgrades to two of our existing Discovery Stores at Joondalup and Maddington and have opened a new store at Bull Creek, replacing our Booragoon branch that closed in 2017.

In listening to member feedback, we have created new progressive designs for these stores, which look nothing like a traditional bank branch and aim to foster relaxed, quality conversations between our members and staff.

By working with leading WA designers and suppliers, these inviting new spaces make members feel comfortable, whether dropping in for a transaction, a conversation or a more private meeting.

Feedback from our members and staff has been very positive and we are looking forward to the refurbishment of more stores in 2018/19.

Our community

As a mutual, we believe that community support is an essential part of our proposition.

Our Chair has already outlined that P&N has continued to facilitate strong community partnerships and support for those individuals, families and small not-for-profit groups that our members have nominated.

We will continue to engage our members and staff in our community programs so that together, as a collective, we can all make a positive impact.

Like the Chair, I also wish to invite our members to become involved in our Helping &nds program by nominating deserving people in your neighbourhood, school group or community who might need a helping hand.

The stories of those people who our members have helped are very heart-warming and I urge you to learn more about these programs by talking to our staff or looking at our website.

Our financial results

Australia's domestic economy has continued to improve marginally with gains in GDP and household consumption and there has been some improvement in employment conditions when compared to 2017.

Western Australia continues to recover, albeit slowly, and is seeing some positive trends in construction and

Images L - R
Flourish 'Growing Partnerships in the Community' event; P&N's Mitesh and Dianne

equipment investment. The slowdown in recent years from the WA mining boom appears to have run its course and we are hopeful that in time, conditions in WA will continue to improve.

- The Bank's net profit after tax was $12.16 million up 9.6% from the previous year's $11.09 million.
- The Bank's capital adequacy ratio improved to 15.53% from 14.63%, primarily as a result of a securitisation issue and remains significantly higher than the minimum ratio required by our regulator.
- Total Bank assets increased by $162.7 million up 4.1% to $4,147 million following sound growth in loans and advances of $176.4 million up 5.2%.
- The Bank's member deposits increased by 4.7% or $132.31 million to achieve total member deposits of $2,971 million.
- The Group's profit before tax increased by 22.8% from $13.67 million to $16.78 million.
- Group net profit after tax increased by 9.8% from $11.02 million to $12.10 million, largely due to tight control of operating expenses and sale of non-core assets.
- Group net interest income increased by $4.23 million up 6.2% to $72.36 million.
- Total Group assets increased $163.7 million to $4,149 million.
- Total Group member funds, including retained earnings increased by $12.3 million up 4.5% to $285.8 million.
- Active member numbers grew by just over 1% to 94,052.

Looking forward

There is no doubt that fintech disruption and market uncertainty will remain key factors in the near future. More than ever, a flexible and agile approach towards innovation, collaboration and partnership is essential to our strategic direction.

P&N will continue to review the landscape for collaborative opportunities to ensure we remain relevant and can continue to offer our members competitive, modern channels, valuable products and exceptional customer service.

We have already achieved significant success using this approach and look forward to developing our valued existing partnerships and some new partnerships in the year ahead.

"We were the first bank in Australia to offer our members an instant digital card for new debit cards"

Acknowledgments

I am genuinely proud of P&N's achievements over the past year and would like to thank the Board for their ongoing support and commitment to our members and our team. In particular, I would like to thank our Chairman, Paul Gabb, for his counsel and dedication to P&N throughout the year.

To my Executive team, management and staff, I sincerely thank you for another year of commitment, loyalty and focus on our members. We have a very positive culture at P&N and I am proud and inspired by the work I see you doing every day on behalf of our members.

Finally, I would like to thank you, our members. You are the reason we exist. To those who have provided me with feedback throughout the year, thank you for your loyalty and commitment to P&N. Whilst I love hearing about your positive experiences, I also appreciate learning how we can improve.

To those of you who have a strong connection with P&N, can I ask that you continue to tell your family and friends about the benefits of banking with P&N so that we can grow and flourish on your behalf.

We look forward to your support over the next year as we continue to promote the benefits of P&N's member-owned model and prove to more West Australians why we are indeed stronger together.

Andrew Hadley
Chief Executive Officer

Highlights

OUR MEMBERS

THREE NEW LOOK **DISCOVERY STORES**

BEST MUTUAL BANK ★★★

RFI AUSTRALIAN LENDING AWARDS 2018

+42

NET PROMOTER SCORE* JUNE 2018

OUR PEOPLE

78% STAFF ENGAGEMENT

TOP QUARTILE OF ORGANISATIONS WHO MEASURE ENGAGEMENT

52%

WOMEN IN LEADERSHIP

FLEXIBLE WORKFORCE

ONE IN FOUR ARE PART-TIME EMPLOYEES ACROSS ALL LEVELS

INNOVATION

DIGITAL

AUSTRALIAN **FIRST** INSTANT DIGITAL CARDS

INTRODUCED Osko BY BPAY FASTER PAYMENTS

ROBOTICS

9 BOTS DEPLOYED

11% EFFICIENCY IMPROVEMENT

8 STAFF CERTIFIED LEAN SIX SIGMA GREEN BELTS

COMMUNITY SUPPORT

100 CHILDREN, PARENTS, CARERS AND VOLUNTEERS

ANNUAL VARIETY MOTOR MOUTH CAMP

FULL TRAINING OF FOUR LIFELINE WA TELEPHONE CRISIS SUPPORT VOLUNTEERS

Helping Hands

40 SMALL NOT FOR PROFIT GROUPS

29 FAMILIES AND INDIVIDUALS

OUR COMMUNITY PARTNERS

alongside · the fathering project · Lifeline WA · variety the children's charity

* Net Promoter Score (NPS) is a customer advocacy measure, from -100 to +100. The Big 4 have an NPS of around -15, and average NPS of +20 for other Australian banks.

ENRICHING THE LIVES

OF OUR MEMBERS AND THEIR COMMUNITIES.

Clockwise from top left

Lifeline WA Volunteer Telephone Crisis Supporters; Dads and kids taking part in a Fathering Project event; The Read family on Variety WA's Motor Mouth Camp; The P&N team lending a helping hand; Our We Champion Partners at our Flourish event; A young fan at a P&N sponsored Perth Wildcats game.

Report of the Directors

Your Directors present their report on the financial statements of Police & Nurses Limited (Bank) and Police & Nurses Limited and its controlled entities (Group) for the year ended 30 June 2018.

Corporate Governance

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

Operations of the Board of Directors

Corporate governance responsibilities of the Board include:

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

Directors

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

Paul Marshall GABB

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

Executive - Australian Federal Police, 20 years' service as a Director of the Bank; 32 years' service in Law Enforcement. Audit Committee member, Risk Committee member until 27 November 2017 and Board Governance and Remuneration Committee member from 27 November 2017.

Stephen John MELVILLE

(Deputy Chair) B.Bus (Accounting) FCPA GAICD

Director - Corporate Services, Department of Jobs, Tourism, Science & Innovation, 24 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, Risk Committee Chair until 27 November 2017, Risk Committee member from 27 November 2017 and Audit Committee member.

Michelle Louise FYFE

APM GAICD Masters of Executive Leadership (Policing & Emergency Services) (resigned 8 June 2018)

Assistant Commissioner State Crime – WA Police until June 2018. 33 years' service as a Police Officer, 9 years' service as a Director of the Bank. Board Governance and Remuneration Committee Chair until 8 June 2018.

Wayne GREGSON

APM BA MBA PhD FAICD

Former Commissioner, Department of Fire & Emergency Services WA, 32 years' service as a Police Officer, 9 years' service as a Director of the Bank. Board Governance and Remuneration Committee member.

Eric Laurence SMITH
FAICD FAMI

Detective Inspector – WA Police Force, 42 years' service. Certificate in Police Studies, Diploma of Policing, Advanced Diploma of Business Management, Diploma of Criminal Investigations, Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Graduate Certificate of Business (Leadership), Graduate Diploma of Business (Leadership & Management). 24 years' service as a Director of the Bank. Audit Committee Chair and Board Governance and Remuneration Committee member.

Kellie Louise PROPERJOHN
APM, GAICD (appointed 13 November 2017)

Assistant Commissioner WA Police Force, 32 years' service. Graduate Certificate of Business (Leadership), Associate Degree in Criminology and Justice (Policing), Diploma of Public Safety (Policing), Advanced Diploma of Public Safety (Police Investigations), Advanced Diploma of Criminal Analysis, Advanced Diploma of Business Management, Diploma of Police Training (Criminal Investigation). Appointed to the Board on 13 November 2017 and Risk Committee member from 27 November 2017.

Edwin Roy BRADLEY
MBA BBus GAICD FCPA SF Fin

Consultant with 40 years' extensive experience in retail banking, strategic planning, corporate banking and risk management. Bachelor's degree in accounting and business law, post-graduate diploma in economics and financial management plus an MBA. Six years' service as a Director of the Bank. Risk Committee member until 27 November 2017, Risk Committee Chair from 27 November 2017 and Audit Committee member.

Julie Ann ELLIOTT
FAICD FCA FFin MBA (Exec) BEc

Experienced banking and finance executive with 36 years' experience across retail banking, commercial banking, payments, wealth management, project management, accounting and audit. Board Governance and Remuneration Committee member from 15 June 2017 to 27 November 2017, Risk Committee member until 16 July 2018, Audit Committee member from 27 November 2017 and Board Governance and Remuneration Committee Chair from 25 June 2018.

Andrew Douglas HADLEY
BCom GAICD SFFin

CEO of P&N Bank since 2014 and Executive Director of the Bank for 2 years, with over 25 years' of broad financial services experience.

Trevor Joel HUNT
BBus (appointed 16 July 2018)

Experienced retail banking and financial services professional. Appointed to the Board on 16 July 2018 to fill a casual vacancy. Risk Committee member from 16 July 2018.

Each Director holds one member share in the Bank.

Company Secretary

Jennifer Anne HANDZ
(resigned 7 December 2017)

Two and a half 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.

Michael John RIBBENS
(appointed 7 December 2017 and resigned 2 February 2018)

Chief Financial Officer of the Bank. Interim appointment to fill casual vacancy.

Jacqueline Anne DONALD
LLB (Hons) (appointed 1 February 2018)

General Counsel and Company Secretary of the Bank with over 18 years' corporate law experience. Has held senior legal roles in private practice law firms in Australia and the United Kingdom. Admitted as a solicitor in Scotland in 2000, admitted as a solicitor in New South Wales in 2009 and holds a current Western Australian legal practising certificate.

Composition and Meetings of the Board

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

- the Board comprises 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 2018 and the number of meetings attended by each Director.

Director	Directors' Meetings		Audit Committee Meetings		Risk Committee Meetings		Board Governance and Remuneration Committee Meetings	
Member elected directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
P M Gabb	12	12	5	5	2	2	3	2
S J Melville**	12	12	5	5	7	7	*	*
M L Fyfe***	11	8	*	*	*	*	6	6
W Gregson	12	10	*	*	*	*	6	6
E L Smith	12	10	5	5	*	*	6	6
K L Properjohn	7	6	*	*	5	4	*	*
Board appointed directors								
E R Bradley	12	12	5	5	7	7	*	*
J A Elliott	12	11	2	2	7	7	3	3
A D Hadley****	12	12	*	*	*	*	*	*

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 Mr Steve Melville and included two independent attendees.

*** Resigned on 8 June 2018.

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

Director Induction Program

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

Directors' Remuneration

Board members are remunerated as per Division 17 of the Constitution. The total remuneration for the Board is determined 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 five Board members. This Committee has written terms of reference, which outline its role and responsibilities to enable it to assist the Board in relation to:

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

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

Risk Committee

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

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

Board Governance and Remuneration Committee

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

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

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

Nominations Committee

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

Group Risk Management

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

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

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

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

Ethical Standards

Board members are 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 that must be disclosed under section 191 of the Corporations Act 2001 (Cth) will neither be present at the Board meeting while the matter is considered nor vote on the matter.

Review of Operations

The profit of the Group and the Bank for the financial year after income tax and before minority interest was $12,102,656 (2017: $11,019,582) and $12,161,577 (2017: $11,092,147) respectively.

Report of the Directors

During the financial year, total assets of the Group increased by $163,717,345 to $4,149,209,544, members' deposits increased by $133,410,872 to $2,970,662,344, and loans and advances increased by $176,404,625 to $3,551,252,685.

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 in May 2018 sold the Jacaranda Gardens Retirement Village.

Significant Changes

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

Principal Activities

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

Events Subsequent to the End of the Financial Year

Since the end of the financial year, the Bank has entered into a new 10 year leasing arrangement for the Bank's head office to be located at 556 Wellington Street, Perth. The 3 year property development debtor due from Pindan Capital Two Rocks Pty Ltd as trustee for the Pindan Capital Two Rocks Trust was repaid and a new 3 year debtor facility arrangement was established which included additional security and is based on a commercial interest rate.

Environmental Regulation

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

Insurance of Officers

During the year, a premium was paid in respect of a contract insuring 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

P M GABB
Director

S J MELVILLE
Director

Date: 27 August 2018
PERTH WA

Auditor's Independence Declaration

As lead auditor for the audit of Police & Nurses Limited for the year ended 30 June 2018, 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
27 August 2018

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

Income Statements

Year Ended 30 June 2018	Notes	Consolidated		Police & Nurses Limited	
		2018 $000	2017 $000	2018 $000	2017 $000
Interest revenue *	3	153,738	149,412	179,142	167,420
Interest expense *	3	81,380	81,281	111,039	101,814
Net interest income		72,358	68,131	68,103	65,606
Non-interest revenue					
Loan fee revenue		2,619	2,791	2,619	2,791
Financial services fees		2,932	3,017	2,932	3,017
Financial planning fees		2,926	2,966	-	-
Amenity fees		392	536	-	-
Other fee revenue		496	497	501	523
Securitisation servicing fees		-	-	5,232	3,636
Insurance commissions		3,053	3,155	3,053	3,155
Other commissions		2,127	2,107	2,127	2,107
Revenue from sale of property developments		-	1,390	-	-
Dividend revenue		713	409	1,216	426
Other income					
Bad debts recovered		455	479	455	479
Other income		2,795	1,992	1,650	1,586
Total non-interest revenue and other income		18,508	19,339	19,785	17,720
Total income		90,866	87,470	87,888	83,326
Bad and doubtful debts expense	8(a)	3,287	3,555	3,287	3,555
Other expenses					
Finance costs		760	431	760	431
Depreciation and amortisation		5,059	5,002	5,035	4,974
Fees and commissions		7,798	7,023	7,558	6,811
Property development costs		14	1,208	-	-
Employee benefits expense		32,871	32,474	30,837	30,152
Information technology costs		6,327	5,709	6,233	5,624
Marketing costs		3,710	3,144	3,691	3,118
Other general and administration costs		8,404	7,378	7,677	6,719
Loss on revaluation of investment property		-	1,331	-	-
Net loss on disposal of plant & equipment & intangible assets		1	623	1	623
Rental - operating leases		5,852	5,925	5,852	5,925
Total expenditure		74,083	73,803	70,931	67,932
Profit before income tax		16,783	13,667	16,957	15,394
Income tax expense	4	4,680	2,648	4,795	4,303
Profit for the year		12,103	11,019	12,162	11,091
(Profit) / loss attributable to non-controlling interests		18	40	-	-
Profit attributable to members		12,121	11,059	12,162	11,091

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

* The prior year numbers include a reclassification of interest on mortgage offset accounts of $5.7m. Interest accruing on these accounts is now presented on a net basis within interest revenue according to the Group's revenue recognition policy.

Statements of Comprehensive Income

Year Ended 30 June 2018	Notes	Consolidated		Police & Nurses Limited	
		2018	2017	**2018**	2017
		$000	$000	**$000**	$000
Profit for the year		**12,103**	11,019	**12,162**	11,091
Other comprehensive income					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges	22(c)	**313**	1,078	**313**	1,078
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)	**(94)**	(828)	**(94)**	(828)
Other comprehensive income for the period, net of tax		**219**	1,934	**219**	1,934
Total comprehensive income for the period		**12,322**	12,953	**12,381**	13,025
Total comprehensive income for the year is attributable to:					
Members of the Bank		**12,340**	12,993	**12,381**	13,025
Non-controlling interests		**(18)**	(40)	**-**	-
		12,322	12,953	**12,381**	13,025

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

Balance Sheets

Year Ended 30 June 2018	Notes	Consolidated		Police & Nurses Limited	
		2018	2017	**2018**	2017
		$000	$000	**$000**	$000
Assets					
Cash and cash equivalents	5	**141,244**	134,011	**92,865**	87,092
Receivables due from other financial institutions	6	**397,972**	394,768	**397,972**	394,768
Available for sale financial assets	10	**8,625**	8,625	**6,562**	6,562
Assets held for sale	13	**1,234**	23,469	**-**	-
Other assets	7	**34,238**	34,622	**4,446**	4,458
Loans and advances	8	**3,551,253**	3,374,848	**3,551,253**	3,374,848
Derivative financial instruments	9	**112**	318	**96**	318
Due from controlled entities	11	**-**	-	**77,922**	97,060
Property, plant and equipment	12	**4,956**	6,926	**4,915**	6,867
Investments in controlled entities	14	**-**	-	**2,755**	3,082
Intangible assets	15	**7,511**	7,905	**5,939**	6,333
Deferred tax assets	16	**2,065**	-	**2,340**	2,972
Total assets		**4,149,210**	3,985,492	**4,147,065**	3,984,360
Liabilities					
Members' deposits	17	**2,970,662**	2,837,251	**2,971,226**	2,838,920
Accrued interest and other payables	18	**20,277**	16,975	**19,599**	15,940
Liabilities associated with assets held for sale	13	**-**	16,097	**-**	-
Derivative financial instruments	9	**206**	762	**101**	426
Current tax liabilities		**3,398**	346	**3,418**	436
Borrowings	19	**864,575**	835,743	**359,899**	355,288
Due to controlled entities	11	**-**	-	**504,594**	497,840
Provisions	20	**4,277**	3,815	**3,982**	3,645
Deferred tax liabilities	21	**-**	1,010	**-**	-
Total liabilities		**3,863,395**	3,711,999	**3,862,819**	3,712,495
Net assets		**285,815**	273,493	**284,246**	271,865
Members' funds					
Reserves	22	**223,342**	223,091	**223,342**	223,091
Retained earnings	22	**61,884**	49,795	**60,904**	48,774
Non-controlling interests		**589**	607	**-**	-
Total members' funds		**285,815**	273,493	**284,246**	271,865

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

Statements of Changes in Equity

Year Ended 30 June 2018	Notes	Consolidated		Police & Nurses Limited	
		2018	2017	2018	2017
		$000	$000	$000	$000
Total members' funds (equity) at the beginning of the financial year		**273,493**	260,540	**271,865**	258,840
Changes in the fair value of cash flow hedges, net of tax	22(c)	**219**	755	**219**	755
Changes in the fair value of available for sale financial assets	22(d)	-	1,179	-	1,179
Net income recognised directly in members' funds (equity)		**219**	1,934	**219**	1,934
Profit for the year		**12,103**	11,019	**12,162**	11,091
Total comprehensive income for the year		**12,322**	12,953	**12,381**	13,025
Total members' funds (equity) at the end of the financial year		**285,815**	273,493	**284,246**	271,865
Total comprehensive income for the year is attributable to:					
Members of the Bank		**12,340**	12,993	**12,381**	13,025
Non-controlling interests		**(18)**	(40)	-	-
		12,322	12,953	**12,381**	13,025

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

Cash Flow Statements

Year Ended 30 June 2018	Notes	Consolidated		Police & Nurses Limited	
		2018	2017	**2018**	2017
		$000	$000	**$000**	$000
Cash flows from operating activities					
Interest received from loans		**140,519**	139,288	**140,519**	140,876
Interest received from investments		**13,369**	10,382	**38,772**	26,802
Commissions and other income received		**17,334**	19,216	**18,935**	16,446
Borrowing costs - members		**(61,803)**	(58,857)	**(61,813)**	(58,857)
Borrowing costs - banks		**(21,579)**	(21,003)	**(51,228)**	(41,535)
Payments to employees and suppliers		**(61,048)**	(68,693)	**(57,361)**	(64,401)
Income taxes paid		**(4,809)**	(4,648)	**(5,039)**	(5,520)
Net cash inflow from operating activities	23	**21,983**	15,685	**22,785**	13,811
Cash flows from investing activities					
Dividends received		**713**	409	**241**	409
Net increase in loans and advances		**(179,237)**	(215,148)	**(179,237)**	(213,936)
Net movement in interest-earning deposits		**(3,204)**	(53,390)	**(3,204)**	(53,390)
Net movement in interest rate swaps		**(25)**	18	**222**	(318)
Proceeds from sale of property, plant and equipment		**117**	24	**117**	24
Net proceeds from sale of assets & liabilities held for sale		**7,372**	-	**-**	-
Payments for property, plant and equipment		**(783)**	(2,429)	**(777)**	(2,429)
Payments for intangible assets		**(2,031)**	(1,995)	**(2,031)**	(1,995)
Loans to/repayments from controlled entities		**-**	-	**30,618**	46,831
Net cash outflow from investing activities		**(177,078)**	(272,511)	**(154,051)**	(224,804)
Cash flows from financing activities					
Net increase in members' deposits		**133,456**	138,517	**132,388**	138,865
Net borrowings from other financial institutions		**28,832**	88,548	**4,611**	49,109
Member shares issued		**72**	79	**72**	79
Member shares redeemed		**(32)**	(28)	**(32)**	(28)
Net cash inflow from financing activities		**162,328**	227,116	**137,039**	188,025
Net increase/(decrease) in cash and cash equivalents held		**7,233**	(29,710)	**5,773**	(22,968)
Cash and cash equivalents reclassified to assets held for sale		**-**	(630)	**-**	-
Cash and cash equivalents at the beginning of the year		**134,011**	164,351	**87,092**	110,060
Cash and cash equivalents at the end of the year	5	**141,244**	134,011	**92,865**	87,092

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).

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) – 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 2017:

AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*

AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

AASB 2017-2 *Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle*

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.

(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 the Eagle Bay Joint Venture was classified as a joint operation and was 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 28. The Group's investment in Eagle Bay Joint Venture was dissolved on 14 June 2018.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

The investment property, that was reclassified as assets held for sale in 2017 was sold in 2018.

(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

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

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.

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.

(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(e).

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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income tax (continued)

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.

(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.

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

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

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

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.

(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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 accrued interest and other payables.

(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) Accrued interest and other payables

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

(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. 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Business combinations (continued)

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.

(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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) New accounting standards

The following accounting standards have not yet been adopted:

AASB 9 - Financial Instruments will replace AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) and includes requirements for impairment, classification and measurement, general hedge accounting and additional disclosure. The Group established a AASB 9 project to ensure timely compliance and are currently on target to report for the financial year ended 30th June 2019.

Impairment

AASB 9 replaces the incurred loss model under AASB 139 with a forward-looking expected loss model using a three stage approach which allocates financial assets on the basis of credit risk. Where there has been no significant increase in credit risk to a financial asset since origination, the asset is classified as a stage one asset and the provision recognised is equivalent to 12 months of expected credit losses. Where there has been significant deterioration in credit risk or there is objective evidence of impairment, the financial assets fall into stage two and three, and a provision equivalent to the full lifetime expected loss is recognised.

Implementation

As part of the AASB 9 project, a AASB 9 compliant impairment modelling tool has been purchased and is currently being implemented. The expected credit loss model uses probability weightings that consider the time value of money, probability of default, loss given default and the sensitivity of the portfolio to changes in forward looking variables such as forecast macroeconomic factors.

The Group is in the process of assessing the impact of the application of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.

Classification and measurement

AASB 9 uses a business model approach for managing financial assets and also considers whether the cash flows represent solely payments of principal and interest. Financial assets are further classed as:

(i) Financial assets at amortised cost

(ii) Financial assets at fair value through profit and loss

(iii) Financial assets at fair value through non-recyclable other comprehensive income

An assessment of the impact on financial asset classification has been completed with no material changes to current classification.

Hedging

AASB 9 hedge accounting changes focus on moving to a principal based approach which increases the eligibility of both hedge instruments and hedged items but does not significantly change the accounting treatment. Management completed an assessment of the impact on hedging operations with the assistance of external consultants. The accounting for macro cash flow hedges will not change significantly under the new accounting standard.

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 mandatory for the Group's financial statements for the year ended 30th June 2019. The standard provides a single comprehensive model for revenue recognition that identifies distinct performance obligations within a contract and recognises revenue as each performance obligation is satisfied.

The Group is in the process of assessing the impact of the application of AASB 15 and is not yet able to reasonably estimate the impact on its financial statements. As AASB 15 does not apply to interest income, the majority of the Group's operations will be unaffected by the change in accounting standard.

AASB 16 - Leases removes the classification of leases as either operating leases or finance leases (for the lessee) effectively treating all leases as finance leases and, subject to limited exceptions, requires all leases to be capitalised on the balance sheet. Lessor accounting would remain similar to current practice. AASB 16 is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Group is assessing the potential impact resulting from the application of AASB 16.

The Group's initial assessment indicates the most significant impact will be the recognition of an asset (the right to use the leased item) and a financial liability to pay rentals. Expenses relating to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for the right to use assets and an interest expense on lease liabilities.

As at the reporting date, the Group has non-cancellable operating lease commitments of

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) New accounting standards (continued)

$11.4 million (see note 24) which would be accounted for as leases under the new standard. The financial impact as at the date of transition will be affected by the retrospective application method chosen to be adopted. As at the date of this report, we are in process of analysing the impact from the leasing standard which will be disclosed at the date of adoption in the June 2019 financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Loan provisioning

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) Carrying value of goodwill

The Group carries its goodwill at fair value less any accumulated impairment loss recognised in profit or loss. The key assumptions used in the determination of impairment loss and amortisation are set out in note 15.

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

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

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

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 13.

(v) Estimated fair value of financial assets and liabilities

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

The fair value of unlisted equity securities is determined using level 3 unobservable valuation techniques that consider the financials of the company, historical share transactions and reference the performance to other similar investments.

(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					
	2018			2017		
Interest revenue and interest expense	**Average balance $000**	**Interest $000**	**Average interest rate %**	Average balance $000	Interest $000	Average interest rate %
Interest-earning assets						
Deposits with other banks/ADIs [1]	**516,069**	**13,369**	**2.59%**	495,552	10,382	2.10%
Loans and advances [2]	**3,468,165**	**140,369**	**4.05%**	3,270,912	139,030	4.25%
	3,984,234	**153,738**	**3.86%**	3,766,464	149,412	3.97%
Interest-bearing liabilities						
Members' deposits [2] [3]	**2,714,741**	**60,560**	**2.23%**	2,556,986	60,710	2.37%
Borrowings from other banks/ADIs [1]	**1,023,170**	**20,820**	**2.03%**	974,220	20,571	2.11%
	3,737,911	**81,380**	**2.18%**	3,531,206	81,281	2.30%

	2018	2017
Analysis of net interest income		
Net interest income	**72,358**	68,131
Average interest-earning assets	**3,984,234**	3,766,464
Net interest margin [4]	**1.82%**	1.81%
Spread [5]	**1.68%**	1.66%

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

(1) Authorised Deposit Taking Institutions.

(2) The prior year numbers include a reclassification of interest on mortgage offset accounts of $5.7m. Interest accruing on these accounts is now presented on a net basis within interest revenue according to the Group's revenue recognition policy.

(3) In this note, Members' deposits exclude wholesale deposits.

(4) Net interest margin represents net interest income as a percentage of the relevant average interest-earning assets.

(5) Spread represents the difference between the comparable average interest rates earned and paid.

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
4 INCOME TAX EXPENSE				
(a) Income tax expense				
Current tax	**7,944**	4,638	**4,271**	5,042
Deferred tax	**(3,164)**	(1,424)	**538**	(167)
Over provided for current tax in prior years	**(100)**	(566)	**(14)**	(572)
Income tax expense	**4,680**	2,648	**4,795**	4,303
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 16)	**1,672**	(396)	**702**	(114)
Decrease in deferred tax liabilities (note 21)	**(4,836)**	(1,028)	**(164)**	(53)
	(3,164)	(1,424)	**538**	(167)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	**16,783**	13,667	**16,957**	15,394
Prima facie income tax calculated at 30% (2017: 30%)	**5,035**	4,100	**5,087**	4,618
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non-deductible expenses	**33**	20	**29**	20
Intragroup dividends	**-**	-	**(293)**	(4)
Tax offset for franked dividends	**(103)**	(175)	**(103)**	(175)
	4,965	3,945	**4,720**	4,459
Capital tax losses recognised	**-**	(555)	**-**	-
Prior year losses recouped	**30**	-	**-**	-
(Over)/under provision in prior year, relating to:				
Research and development tax incentive	**-**	(163)	**-**	(163)
Other	**(315)**	(579)	**75**	7
Income tax expense	**4,680**	2,648	**4,795**	4,303
(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 16 & note 21)	**94**	828	**94**	828
(d) Franking credits				
Franking credits based on a tax rate of 30%	**85,811**	81,330	**85,616**	81,101

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 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
5 CASH AND CASH EQUIVALENTS				
Cash on hand	**1,243**	1,504	**1,243**	1,504
Cash and deposits at call with banks	**129,876**	122,872	**81,497**	75,322
Cash and deposits at call with other ADIs	**10,125**	9,635	**10,125**	10,266
	141,244	134,011	**92,865**	87,092
6 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS				
Interest-earning deposits - banks	**343,113**	351,498	**343,113**	351,498
Interest-earning deposits - other ADIs	**54,859**	43,270	**54,859**	43,270
	397,972	394,768	**397,972**	394,768

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	**106**	257	**106**	257
Prepayments	**3,023**	1,945	**3,014**	1,937
Member transaction clearing	**641**	726	**604**	726
Land and property development debtors	**29,296**	28,890	**-**	-
Share of joint venture inventory	**-**	1,023	**-**	-
Other receivables	**1,172**	1,781	**722**	1,538
	34,238	34,622	**4,446**	4,458

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

Land and property development debtors includes $27,800,000 (2017: $26,720,000) receivable from Pindan Capital Two Rocks Pty Ltd as trustee for the Pindan Capital Two Rocks Trust. Subsequent to balance date, the property development debtor was repaid and a new 3 year debtor facility arrangement for $27,720,000 was established with a $10,000,000 repayment due to be paid on or before 31st January 2019 with further repayments due based on future lot sales. This new debtor facility is supported by a registered mortgage over the property development as well as additional guarantee security and is based on a commercial interest rate.

The Group previously held a share of joint venture inventory known as "The Enclave" at Eagle Bay. This joint venture has been dissolved and the Group has assumed control of the two unsold lots valued at $1,234,000 which as at 30th June 2018 have been reclassified as assets held for sale and will be actively marketed for sale (see note 13).

1. During the year no lots (2017: seven lots) were sold or settled.
2. The previous share of the joint venture held was 33.33%.

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
8 LOANS AND ADVANCES				
Revolving credit	**98,137**	96,779	**98,137**	96,779
Term loans	**3,457,667**	3,284,699	**3,457,667**	3,284,699
	3,555,804	3,381,478	**3,555,804**	3,381,478
Provision for impairment (a)	**(4,551)**	(6,630)	**(4,551)**	(6,630)
Net loans and advances	**3,551,253**	3,374,848	**3,551,253**	3,374,848

Term loans are those extended for a fixed period with a maturity date by which the loan should be repaid. Revolving Credit includes loans that have a specified credit limit where the amount drawn can fluctuate each month up to the approved limit. Revolving Credit loans can include equity lines of credit, overdrafts, and credit cards.

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 2018, securitised loans under management by the Bank amounted to $1,312,211,000 (2017: $1,303,588,000) which are included in both the revolving credit and term loans above. This includes $30,821,000 (2017: $38,213,000) of loans securitised to the Pinnacle Series Trust 2010-T1, $61,752,000 (2017: $81,124,000) of loans securitised to the Pinnacle Series Trust 2013 – T1, $807,587,000 (2017: $805,357,000) of loans securitised to the Pinnacle Series Trust 2014 – SST, $131,426,000 (2017: $378,894,000) of loans securitised to the Pinnacle RMBS Warehouse Trust, and $280,625,000 (2017: Nil) of loans securitised to the Pinnacle Series Trust 2017 - T1.

All trusts are consolidated as part of the Group (note 14). In accordance with AASB 139 the mortgages securitised in the trusts remain on the balance sheet of the Bank.

Maturity period at 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Not later than one year	**119,957**	109,530	**119,957**	109,530
One year to five years	**49,338**	63,610	**49,338**	63,610
Over five years	**3,386,509**	3,208,339	**3,386,509**	3,208,339
	3,555,804	3,381,478	**3,555,804**	3,381,478

The maturity tables are based on contractual terms.

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
8 LOANS AND ADVANCES (continued)				
(a) Provision for impairment				
Specific provision				
Opening balance	**6,630**	4,999	**6,630**	4,999
Bad debts previously provided for written off	**(5,366)**	(1,924)	**(5,366)**	(1,924)
Bad and doubtful debts provided for during the year	**3,287**	3,555	**3,287**	3,555
Closing balance	**4,551**	6,630	**4,551**	6,630
(b) Bad debts written off				
Bad debts written off during the year were from the following loan types:				
Revolving credit	**647**	381	**647**	381
Personal loans	**934**	448	**934**	448
Home loans	**1,379**	6	**1,379**	6
Commercial & Property Finance	**2,406**	1,089	**2,406**	1,089
	5,366	1,924	**5,366**	1,924
9 DERIVATIVE FINANCIAL INSTRUMENTS				
Derivative financial assets				
Interest rate swaps - fair value through profit and loss - assets	**112**	318	**96**	318
Derivative financial liabilities				
Interest rate swaps - fair value through profit and loss - liabilities	**128**	336	**23**	-
Interest rate swaps - held as cash flow hedges - liabilities	**78**	426	**78**	426
	206	762	**101**	426

(a) Terms and conditions

The Group pays fixed interest on swaps with a notional amount of $78,000,000 (2017: $126,000,000), on which it pays 1.80% to 3.72% (2017: 2.05% to 3.72%) interest and receives 1.92% to 2.11% (2017: 1.62% to 1.78%) interest calculated at a variable rate on the notional amount. At balance sheet date, P&N Bank pays fixed interest on swaps with a notional amount of $45,000,000 (2017: $81,000,000), on which it pays 1.99% to 3.72% (2017: 2.05% to 3.72%) interest and receives 1.92% to 2.11% (2017: 1.62% to 1.78%) interest calculated at a variable rate on the notional amount.

The Group pays variable interest on swaps with a notional amount of $33,000,000 (2017: $45,000,000), on which it pays 1.96% (2017: 1.62%) interest and receives 1.73% to 2.46% (2017: 2.46%) interest calculated on a fixed rate on the notional amount. At balance sheet date, P&N Bank pays variable interest on swaps with a notional amount of $33,000,000 (2017: $45,000,000), on which it pays 1.96% (2017: 1.62%) interest and receives 1.73% to 2.46% (2017: 2.46%) interest calculated on a fixed rate 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.

Notes to the Financial Statements

9 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Terms and conditions (continued)

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 2018	Consolidated		Police & Nurses Limited	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Less than one year	**31**	281	**31**	281
More than one year but less than two years	**26**	85	**26**	85
More than two years but less than five years	**-**	4	**-**	4
Net deferred losses	**57**	370	**57**	370

(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 2018	Consolidated		Police & Nurses Limited	
	2018 $000	2017 $000	**2018 $000**	2017 $000
10 AVAILABLE-FOR-SALE FINANCIAL ASSETS				
Investment in Cuscal (a)	**6,498**	6,498	**6,498**	6,498
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	8,625	**6,562**	6,562

(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, dividend yields of similar investments and recent share transactions (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 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
11 DUE FROM / TO CONTROLLED ENTITIES				
Due from controlled entities (assets)				
Amounts receivable from controlled entities	**-**	-	**32,254**	33,316
Deferred securitisation receivable	**-**	-	**45,668**	63,744
	-	-	**77,922**	97,060
Due to controlled entities (liabilities)				
Amounts payable to controlled entities	**-**	-	**504,594**	497,840
	-	-	**504,594**	497,840

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 $807,587,000 (2017: $805,357,000).

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	**10,705**	10,075	**10,705**	10,075
Accumulated depreciation	**(7,418)**	(5,683)	**(7,418)**	(5,683)
	3,287	4,392	**3,287**	4,392
Plant and equipment				
At cost	**5,868**	5,866	**5,699**	5,703
Accumulated depreciation	**(4,199)**	(3,332)	**(4,071)**	(3,228)
	1,669	2,534	**1,628**	2,475
Total property, plant and equipment	**4,956**	6,926	**4,915**	6,867

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 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
Carrying amount at 1 July 2017	**4,392**	**2,534**	**6,926**	**4,392**	**2,475**	**6,867**
Additions	**631**	**152**	**783**	**631**	**146**	**777**
Disposals	**-**	**(118)**	**(118)**	**-**	**(118)**	**(118)**
Depreciation expense	**(1,736)**	**(899)**	**(2,635)**	**(1,736)**	**(875)**	**(2,611)**
Carrying amount at 30 June 2018	**3,287**	**1,669**	**4,956**	**3,287**	**1,628**	**4,915**

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated 2018 $000	Consolidated 2017 $000	Police & Nurses Limited 2018 $000	Police & Nurses Limited 2017 $000
13 ASSETS & LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE				
Assets held for sale				
Cash	-	630	-	-
Reserve fund	-	2,745	-	-
Reclassified from investment property	-	20,094	-	-
Land blocks held for sale	1,234	-	-	-
	1,234	23,469	-	-
Liabilities associated with assets held for sale				
Lease loan liability	-	(19,937)	-	-
Less: accrued amenities fee	-	7,215	-	-
Refurbishment Provision	-	(3,375)	-	-
	-	(16,097)	-	-

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.

The Jacaranda Gardens Retirement Village, which was reclassified to assets held for sale and liabilities associated with assets held for sale in 2017, was sold during the year.

As a result of dissolving the joint venture at The Enclave Eagle Bay, the Group reclassified the remaining two vacant lots as assets held for sale and have commenced marketing activities (refer note 7).

14 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 2018	Consolidated			
	Interests in Controlled Entities		Value of Investment in Controlled Entities	
			Held by the Bank	Held by the Bank
	2018 %	2017 %	2018 $	2017 $
Members Holding Company Pty Ltd	100	100	73,773	400,002
P&N Landreach Pty Ltd	100	100	10	10
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	-	-
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	-	-
Pinnacle Series Trust 2017 - T1	100	-	-	-
			2,755,363	3,081,592

Jacaranda Gardens Retirement Village was sold on 9th May 2018.

Pinnacle Series Trust 2017 - T1

The Bank launched a private term issue in November 2017. The Pinnacle Series Trust 2017 - T1 acquired mortgages by the way of purchasing mortgages directly from the P&N balance sheet and a warehouse trust, the Pinnacle RMBS Warehouse Trust No 1.

The beneficial interest in the property of the Pinnacle Series Trust 2017 - T1 is represented by one income unit and ten capital units all held by Police & Nurses Ltd. As a result full ownership of the Trust is consolidated as part of the Group.

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

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
15 INTANGIBLE ASSETS				
Goodwill (i)				
At cost	**1,572**	1,572	**-**	-
	1,572	1,572	**-**	-
Computer Software (ii)				
At cost	**14,769**	12,737	**14,769**	12,737
Accumulated amortisation	**(8,830)**	(6,404)	**(8,830)**	(6,404)
	5,939	6,333	**5,939**	6,333
Total intangible assets	**7,511**	7,905	**5,939**	6,333
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	**6,333**	7,293	**6,333**	7,293
Additions	**2,030**	1,995	**2,030**	1,995
Disposals	**-**	(401)	**-**	(401)
Amortisation charge *	**(2,424)**	(2,554)	**(2,424)**	(2,554)
Closing carrying amount	**5,939**	6,333	**5,939**	6,333

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

(a) Impairment test for goodwill

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

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

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

The value is calculated by discounting expected future cash flows based on the following assumptions:
(I) cash flow forecasts for the next 5 years;
(II) discount rate of 13.5% (2017: 13.5%) per annum pre-tax; and
(III) current prevailing economic conditions

(c) Impact of possible changes in key assumptions

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

(d) Impairment charge

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

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
16 DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**1,365**	2,055	**1,365**	2,055
Intangible assets - software	**272**	-	**272**	-
Provisions	**1,283**	2,157	**1,195**	1,094
Depreciation	**177**	199	**157**	172
Accruals	**409**	203	**367**	174
Capital tax losses	**-**	555	**-**	-
Other	**97**	106	**79**	87
	3,603	5,275	**3,435**	3,582
Amounts recognised in subsidiary's profit or loss				
Capital tax losses	**-**	-	**-**	555
Amounts recognised directly in equity				
Cash flow hedges	**17**	111	**17**	111
	3,620	5,386	**3,452**	4,248
Tax Losses carried forward	**5**	-	**-**	-
Offset from/to deferred tax liabilities (note 21)	**(1,560)**	(5,386)	**(1,112)**	(1,276)
Net deferred tax assets	**2,065**	-	**2,340**	2,972
Movements:				
Opening balance	**5,386**	5,313	**4,248**	3,902
(Charged)/credited to the income statement (note 4)	**(1,672)**	396	**(702)**	114
Charged to intercompany payable	**-**	-	**-**	555
Charged to equity (note 4) & (note 22(c))	**(94)**	(323)	**(94)**	(323)
Closing balance	**3,620**	5,386	**3,452**	4,248

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
17 MEMBERS' DEPOSITS				
Call deposits	**1,115,233**	1,021,545	**1,115,797**	1,023,214
Term deposits	**1,854,533**	1,814,850	**1,854,533**	1,814,850
Withdrawable shares (a)	**896**	856	**896**	856
	2,970,662	2,837,251	**2,971,226**	2,838,920

Interest is calculated on a daily balance outstanding.

Details on maturity analysis for deposits are set out in note 30.

(a) There exists one class of withdrawable shares, and these are member shares and are redeemable on demand, subject to certain conditions. There were 92,107 (2017: 88,192) member shares on issue at the end of the year:

	2018 Number of shares	2017 Number of shares	**2018 Number of shares**	2017 Number of shares
Number of $10 shares	**86,970**	82,894	**86,970**	82,894
Number of $6 shares	**4,499**	4,629	**4,499**	4,629
Number of $0 shares	**638**	669	**638**	669
	92,107	88,192	**92,107**	88,192
Movements:				
Opening number of shares	**88,192**	83,138	**88,192**	83,138
New shares issued during the year	**7,218**	7,875	**7,218**	7,875
Resignations during the year	**(3,303)**	(2,821)	**(3,303)**	(2,821)
Closing balance	**92,107**	88,192	**92,107**	88,192

	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
18 ACCRUED INTEREST AND OTHER PAYABLES				
Accrued interest payable	**12,063**	13,305	**12,063**	13,305
Other payables	**8,214**	3,670	**7,536**	2,635
	20,277	16,975	**19,599**	15,940

Accrued interest and other payables are normally settled within 12 months other than lease loan sums.

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
19 BORROWINGS				
Secured by home loan portfolios	**504,676**	480,455	**-**	-
Unsecured	**359,899**	355,288	**359,899**	355,288
	864,575	835,743	**359,899**	355,288
20 PROVISIONS				
Employee benefits (a)	**3,791**	3,443	**3,562**	3,273
Make good (b)	**420**	372	**420**	372
Other	**66**	-	**-**	-
	4,277	3,815	**3,982**	3,645

(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	**2,991**	2,818	**2,814**	2,680
Between one and two years	**283**	76	**260**	76
Later than two years	**517**	549	**488**	517
	3,791	3,443	**3,562**	3,273

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

(b) Provision for make good				
Opening balance	**372**	324	**372**	324
Make good provided for during the year	**48**	48	**48**	48
Closing balance	**420**	372	**420**	372

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:

Less than one year	**420**	-	**420**	-
Between one and three years	**-**	372	**-**	372
	420	372	**420**	372

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
21 DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Receivables	**448**	2,988	**-**	-
Intangible assets - software	**-**	98	**-**	98
Inventory	**-**	33	**-**	-
Interest rate swaps	**29**	95	**29**	95
Deferred Income	**-**	41	**-**	-
Fair value adjustment to investment property	**-**	1,178	**-**	-
Capital works	**-**	880	**-**	-
	477	5,313	**29**	193
Amounts recognised directly in equity				
Available for sale financial assets	**1,083**	1,083	**1,083**	1,083
	1,560	6,396	**1,112**	1,276
Offset to / from deferred tax assets (note 16)	**(1,560)**	(5,386)	**(1,112)**	(1,276)
Net deferred tax liabilities	**-**	1,010	**-**	-
Movements:				
Opening balance	**6,396**	6,919	**1,276**	824
Credited to the income statement (note 4)	**(4,836)**	(1,028)	**(164)**	(53)
Charged to equity (note 4)	**-**	505	**-**	505
Closing balance	**1,560**	6,396	**1,112**	1,276

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
22 RESERVES AND RETAINED EARNINGS				
Reserves				
General reserve (a)	**220,000**	220,000	**220,000**	220,000
Share capital reserve (b)	**855**	823	**855**	823
Cash flow hedge reserve (c)	**(40)**	(259)	**(40)**	(259)
Available for sale financial assets reserve (d)	**2,527**	2,527	**2,527**	2,527
	223,342	223,091	**223,342**	223,091
Retained earnings				
Balance at beginning of year	**49,795**	38,763	**48,774**	37,710
Profit for the year	**12,121**	11,059	**12,162**	11,091
Total available for appropriation	**61,916**	49,822	**60,936**	48,801
Amount transferred to share capital reserve (b)	**(32)**	(27)	**(32)**	(27)
Balance at end of year	**61,884**	49,795	**60,904**	48,774

(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	**823**	796	**823**	796
Transfer from retained profits	**32**	27	**32**	27
Balance at end of year	**855**	823	**855**	823

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	**(259)**	(1,014)	**(259)**	(1,014)
New cash flow hedges	**(6)**	-	**(6)**	-
Revaluation of cash flow hedge instruments	**201**	515	**201**	515
Cash flow hedges recycled to income statement	**117**	560	**117**	560
Ineffective gains recognised in the income statement	**1**	3	**1**	3
Income tax on revaluation (note 16)	**(94)**	(323)	**(94)**	(323)
Balance at end of year	**(40)**	(259)	**(40)**	(259)

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 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
22 RESERVES AND RETAINED EARNINGS (continued)				
(d) Available for sale financial assets reserve				
Balance at beginning of year	**2,527**	1,348	**2,527**	1,348
Revaluation	**-**	1,684	**-**	1,684
Income tax on revaluation	**-**	(505)	**-**	(505)
Balance at end of year	**2,527**	2,527	**2,527**	2,527

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 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
23 NOTES TO THE CASH FLOW STATEMENTS				
(a) Reconciliation of the operating profit after tax to the net cash flows from operations				
Profit after income tax	**12,103**	11,019	**12,162**	11,091
Depreciation and amortisation	**5,059**	5,002	**5,035**	4,974
Bad and doubtful debts	**3,287**	3,555	**3,287**	3,555
Bad debts recovered	**(455)**	(479)	**(455)**	(479)
Loss on disposal of property, plant and equipment	**1**	623	**1**	623
Dividend received	**(713)**	(409)	**(241)**	(409)
Increase/(decrease) in provisions	**463**	(314)	**337**	(374)
Decrease in loan interest receivable	**150**	258	**150**	258
Decrease/(increase) in other receivables	**204**	(395)	**821**	(370)
Decrease in inventory	**-**	1,159	**-**	-
(Decrease)/increase in member interest payable	**(1,242)**	1,853	**(1,242)**	1,853
Increase/(decrease) in accrued expenses and other payables	**4,334**	(5,662)	**501**	(5,846)
Increase/(decrease) in current tax liabilities	**3,052**	(632)	**2,981**	(550)
(Increase)/decrease in deferred tax asset	**(2,065)**	-	**525**	106
Decrease in deferred tax liabilities	**(1,116)**	(1,367)	**-**	(772)
(Increase)/decrease in sundry debtors and prepayments	**(1,079)**	143	**(1,077)**	151
Fair value adjustment to investment property	**-**	1,331	**-**	-
Net cash inflow from operating activities	**21,983**	15,685	**22,785**	13,811

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

Notes to the Financial Statements

23 NOTES TO THE CASH FLOW STATEMENTS (continued)

(b) Net debt reconciliation

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

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	2018	2017
	$000	$000	$000	$000
Net debt				
Cash and cash equivalents	**141,244**	134,011	**92,865**	87,092
Borrowings- repayable within one year (including overdraft)	**(508,494)**	(750,977)	**(359,899)**	(355,288)
Borrowings- repayable after one year	**(356,081)**	(84,766)	**-**	-
Net Debt	**(723,331)**	(701,732)	**(267,034)**	(268,196)
Cash and liquid investments	**141,244**	134,011	**92,865**	87,092
Gross debt - fixed interest rates	**(359,899)**	(355,288)	**(359,899)**	(355,288)
Gross debt - variable interest rates	**(504,676)**	(480,455)	**-**	-
Net Debt	**(723,331)**	(701,732)	**(267,034)**	(268,196)

	Other assets		Liabilities from financing activities		
	Cash	Liquid Investments	Borrowings due < 1 year	Borrowings due > 1 year	Total
	$000	$000	$000	$000	$000
CONSOLIDATED					
Net debt as at 1 July 2017	**134,011**	**-**	**(750,977)**	**(84,766)**	**(701,732)**
Cash flows	**7,233**	**-**	**242,483**	**(271,315)**	**(21,599)**
Net debt as at 30 June 2018	**141,244**	**-**	**(508,494)**	**(356,081)**	**(723,331)**
POLICE & NURSES LIMITED					
Net debt as at 1 July 2017	**87,092**	**-**	**(355,288)**	**-**	**(268,196)**
Cash flows	**5,773**	**-**	**(4,611)**	**-**	**1,162**
Net debt as at 30 June 2018	**92,865**	**-**	**(359,899)**	**-**	**(267,034)**

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
24 EXPENDITURE COMMITMENTS				
(a) Capital expenditure commitments				
Estimated capital expenditure contracted for at balance sheet date but not provided for				
- payable not later than one year	**1,747**	1,515	**1,747**	1,515
(b) Lease expenditure commitments				
Operating leases (non-cancellable)				
- not later than one year	**5,908**	6,005	**5,908**	6,005
- later than one year and not later than five years	**5,428**	7,818	**5,428**	7,818
- later than five years	**44**	213	**44**	213
Aggregate lease expenditure contracted for at balance sheet date	**11,380**	14,036	**11,380**	14,036

Significant leasing arrangements

The Bank has a leasing arrangement in place for its head office at 130 Stirling Street, Perth. The lease expires on 4 June 2019, with no right of renewal. Not included in the above commitments is a new leasing arrangement for the Bank's head office that was signed on 16th July 2018 for a term of 10 years which will be approximately $24,058,000.

25 FINANCING FACILITIES, CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
Credit related commitments				
Approved but undrawn loans and credit limits	**355,574**	371,657	**355,574**	371,657

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 $3,000,000 (unused as at 30 June 2018).
- lodged a settlement security deposit of $21,400,000 under the Standard Terms and Conditions.
- lodged an overdraft security deposit of $3,000,000 under the Standard Terms and Conditions.

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$	$	**$**	$
26 KEY MANAGEMENT PERSONNEL DISCLOSURES				
Total key management personnel remuneration	**2,750,660**	3,233,197	**2,750,660**	3,233,197
Short-term employee benefits	**2,539,946**	2,637,491	**2,539,946**	2,637,491
Post-employment benefits	**197,729**	250,120	**197,729**	250,120
Other long-term benefits	**-**	14,936	**-**	14,936
Termination benefits	**12,985**	330,650	**12,985**	330,650
	2,750,660	3,233,197	**2,750,660**	3,233,197

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

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

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

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

Year Ended 30 June 2018	Police & Nurses Limited	
	2018	2017
	$	$
Loans outstanding to key management personnel and their related entities:		
Total loans	**4,596,816**	6,275,504
Of which, loans under normal member terms and conditions	**2,543,704**	4,008,683
Loan advances	**227,930**	409,255
Loan repayments	**669,533**	990,961
Interest on loans	**130,538**	237,399
Loans outstanding to key management personnel:		
Total discounted loans	**2,053,113**	2,266,822
Of which, unsecured loan balance	**686**	-
Loan advances	**209,339**	3,364
Loan repayments	**319,326**	116,630
Interest on loans	**56,327**	75,796
Outstanding deposits held by key management personnel and their related entities:		
Balance of deposits	**3,846,982**	2,695,027
Additional deposits	**3,418,693**	6,108,412
Withdrawals	**3,312,311**	5,927,544
Interest on deposits	**49,983**	35,963

Notes to the Financial Statements

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
27 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	**186**	192	**186**	192
- other assurance services	**132**	121	**88**	86
	318	313	**274**	278
Other auditors				
- statutory financial reports audit services	**11**	**11**	**-**	-
	11	**11**	**-**	-
	329	324	**274**	278
b) Remuneration for other services:				
Auditor of the parent entity - PricewaterhouseCoopers				
- taxation advice	**66**	109	**66**	80
- consulting	**24**	47	**24**	47
- other	**-**	1	**-**	1
	90	157	**90**	128
Total auditor's remuneration	**419**	481	**364**	406

28 INVESTMENTS IN JOINT ARRANGEMENTS

The Group had a 33.33% interest in the Eagle Bay Joint Venture (domiciled in Australia) to develop a subdivision of land for residential housing. This joint venture has now been dissolved with the Group assuming ownership of the two vacant lots which have been reclassified as assets held for sale. Refer to note 13.

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 2018	Consolidated	
	2018	2017
	$000	$000
Cash and cash equivalents	-	336
Inventories (land held for sale)	-	866
Share of assets employed in joint operations	-	1,202
Other liabilities	-	292
Share of liabilities employed in joint operations	-	292

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:

Revenue from sale of property developments	-	1,390
Share of income in joint operations	-	1,390
Property development costs	-	1,106
Other expenses	**58**	148
Share of expenses in joint operations	**58**	1,254

Notes to the Financial Statements

29 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	
	2018	2017
	$000	$000
Aggregate amounts included in the determination of profit before income tax that resulted from transactions with entities in the Group:		
Interest revenue	**26,417**	17,973
Interest expense	**43,555**	34,241
Securitisation service fee revenue	**5,232**	3,636
Dividend revenue	**976**	17
Other income	**525**	520
Aggregate amounts receivable from entities in the Group at balance sheet date	**77,922**	97,060
Aggregate amounts payable to entities in the Group at balance sheet date	**504,594**	497,840

30 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.

30 FINANCIAL RISK MANAGEMENT (continued)

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.

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
2018					
Cash and cash equivalents	**141,244**	**1,400**	**-**	**(1,400)**	**-**
Due from financial institutions	**397,972**	**3,983**	**-**	**(3,983)**	**-**
Loans (i)	**3,551,253**	**30,888**	**-**	**(30,888)**	**-**
Derivatives	**(94)**	**-**	**251**	**-**	**(256)**
Members' deposits (ii)	**(2,970,662)**	**(18,369)**	**-**	**18,369**	**-**
Borrowings (iii)	**(864,575)**	**(5,047)**	**-**	**5,047**	**-**
Total increase / (decrease)	**255,138**	**12,855**	**251**	**(12,855)**	**(256)**
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 (iii)	(835,743)	(4,805)	-	4,805	-
Total increase / (decrease)	230,189	12,891	683	(12,814)	(474)

(i) 1% shift applied to the value of variable loans held at year end calculated on $3,088,753,000 (2017: $2,968,593,000). The remaining balance represents fixed rate loans for 2017/2018.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $2,453,309,000 (2017: $2,388,274,000*). The remaining balance represents fixed rate deposits for 2017/2018.

(iii) 1% shift applied to the value of variable rate borrowings held at year end calculated on $504,676,000 (2017: $480,455,000*). The remaining balance represents fixed rate borrowings for 2017/2018.

* This figure was incorrect in the prior year and has been updated above for comparability purposes.

Notes to the Financial Statements

30 FINANCIAL RISK MANAGEMENT (continued)

	Police & Nurses Limited				
		+100bp		-100bp	
	Carrying amount	Income statement	Other movements in equity	Income statement	Other movements in equity
	$000	$000	$000	$000	$000
2018					
Cash and cash equivalents	**92,865**	**916**	**-**	**(916)**	**-**
Due from financial institutions	**397,972**	**3,983**	**-**	**(3,983)**	**-**
Loans (i)	**3,551,253**	**30,888**	**-**	**(30,888)**	**-**
Derivatives	**(5)**	**272**	**251**	**(267)**	**(256)**
Members' deposits (ii)	**(2,971,226)**	**(18,369)**	**-**	**18,369**	**-**
Borrowings (iii)	**(359,899)**	**-**	**-**	**-**	**-**
Due to controlled entities	**(504,594)**	**(5,046)**	**-**	**5,046**	**-**
Total increase / (decrease)	**206,366**	**12,644**	**251**	**(12,639)**	**(256)**
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 (iii)	(355,288)	-	-	-	-
Due to controlled entities	(497,840)	(4,805)	-	4,805	-
Total increase / (decrease)	164,552	13,738	683	(13,621)	(474)

(i) 1% shift applied to the value of variable loans held at year end calculated on $3,088,753,000 (2017: $2,968,593,000). The remaining balance represents fixed rate loans for 2017/2018.

(ii) 1% shift applied to the value of variable deposits held at year end calculated on $2,453,873,000 (2017: $2,389,942,000*). The remaining balance represents fixed rate deposits for 2017/2018.

(iii) 1% shift applied to the value of variable rate borrowings held at year end calculated on Nil (2017: Nil*). The remaining balance represents fixed rate borrowings for 2017/2018.

* This figure was incorrect in the prior year and has been updated above for comparability purposes.

Notes to the Financial Statements

30 FINANCIAL RISK MANAGEMENT (continued)

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Fair value of interest rate swaps				
Fair value estimation - interest rate swaps - asset	**112**	318	**96**	318
Fair value estimation - interest rate swaps - (liability)	**(206)**	(762)	**(101)**	(426)

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 $3,000,000 (2017: $5,000,000) of overdraft facility with Cuscal. This facility was undrawn as at 30 June 2018.

Also maintained by the Bank are:

- a securitisation facility with Australia and New Zealand Banking Group Limited under the Pinnacle RMBS Warehouse Trust of $150,000,000 (2017: $375,000,000), of which $31,106,000 (2017: $16,706,000) was available at 30 June 2018; and
- a self securitisation facility under the Pinnacle Series Trust 2014-SST of $835,000,000 (2017: $835,000,000). 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 2018:

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Floating rate				
Expiring within one year (overdraft facilities)	**3,000**	5,000	**3,000**	5,000
	3,000	5,000	**3,000**	5,000

Notes to the Financial Statements

30 FINANCIAL RISK MANAGEMENT (continued)

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

Year Ended 30 June 2018 — **Consolidated**

	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	More than 5 years $000	Total $000
Maturities of financial liabilities						
2018						
Borrowings	**-**	**288,807**	**219,687**	**63,729**	**292,352**	**864,575**
Members' deposits	**1,115,233**	**987,030**	**788,868**	**79,531**	**-**	**2,970,662**
Derivative financial instruments	**-**	**10**	**23**	**173**	**-**	**206**
	1,115,233	**1,275,847**	**1,008,578**	**143,433**	**292,352**	**3,835,443**
2017						
Borrowings	-	281,101	432,481	122,161	-	835,743
Members' deposits	1,018,322	1,014,230	718,693	86,006	-	2,837,251
Derivative financial instruments	-	6	137	301	-	444
	1,018,322	1,295,337	1,151,311	208,468	-	3,673,438

Police & Nurses Limited

	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	More than 5 years $000	Total $000
Maturities of financial liabilities						
2018						
Borrowings	**-**	**288,807**	**71,092**	**-**	**-**	**359,899**
Members' deposits	**1,115,797**	**987,030**	**788,868**	**79,531**	**-**	**2,971,226**
Derivative financial instruments	**-**	**10**	**23**	**68**	**-**	**101**
	1,115,797	**1,275,847**	**859,983**	**79,599**	**-**	**3,331,226**
2017						
Borrowings	-	281,101	74,187	-	-	355,288
Members' deposits	1,018,322	1,015,899	718,693	86,006	-	2,838,920
Derivative financial instruments	-	6	137	(35)	-	108
	1,018,322	1,297,006	793,017	85,971	-	3,194,316

Notes to the Financial Statements

30 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

30 FINANCIAL RISK MANAGEMENT (continued)

Year Ended 30 June 2018 — **Credit risk rating**

2018	Maximum exposure to credit risk $000	Grade 1 (low) $000	Grade 2 (sound) $000	Grade 3 (stable) $000	Grade 4 (moderate) $000	Grade 5 (acceptable) $000	Grade 6 (managed) $000
Derivatives	112	112	-	-	-	-	-
Fully performing loans							
Home loans	2,980,505	2,605,616	303,548	71,341	-	-	-
Secured overdrafts	32,364	32,274	84	6	-	-	-
Commercial loans	45,065	1,927	477	2,736	18,950	20,975	-
Personal loans	36,442	-	-	-	36,442	-	-
Unsecured overdrafts and credit cards	25,020	-	-	-	-	25,020	-
Total fully performing loans	3,119,396	2,639,817	304,109	74,083	55,392	45,995	-
Past due loans							
Home loans							
1-7 days	22,233	20,653	882	698	-	-	-
8-30 days	25,513	22,157	3,348	8	-	-	-
31-60 days	11,967	10,090	1,443	434	-	-	-
61-89 days	3,472	2,286	738	448	-	-	-
Total	63,185	55,186	6,411	1,588	-	-	-
Security held (1)	100,018						
Secured overdrafts							
1-7 Days	1,037	922	115	-	-	-	-
8-30 Days	579	579	-	-	-	-	-
31-60 days	71	71	-	-	-	-	-
61-89 days	577	577	-	-	-	-	-
Total	2,263	2,148	115	-	-	-	-
Security held (1)	11,754						
Commercial Loans							
1-7 days	1,650	-	-	1,650	-	-	-
8-30 days	1,211	-	1,211	-	-	-	-
Total	2,861	-	1,211	1,650	-	-	-
Security held (1)	4,779						
Personal loans							
1-7 days	264	-	-	-	264	-	-
8-30 days	652	-	-	-	652	-	-
31-89 days	362	-	-	-	362	-	-
Total (3)	1,278	-	-	-	1,278	-	-
Unsecured overdrafts and credit cards							
1-7 days	6,674	-	-	-	-	6,674	-
8-30 days	18	-	-	-	-	18	-
Total	6,693	-	-	-	-	6,693	-
Total past due loans	76,280	57,334	7,737	3,238	1,278	6,693	-
Impaired loans							
Home loans							
90 days plus	8,808						
Security held (1)	11,004						
Commercial Loans							
90 days plus	7,383						
Security held (2)	9,880						
Personal loans							
90 days plus	206						
Unsecured overdrafts and credit cards							
90 days plus	1,354						
Total impaired loans	17,751						
Securitised loans	342,377						
Total loans portfolio	3,555,804						

Notes to the Financial Statements

30 FINANCIAL RISK MANAGEMENT (continued)

Year Ended 30 June 2018 — **Credit risk rating**

2017	Maximum exposure to credit risk $000	Grade 1 (low) $000	Grade 2 (sound) $000	Grade 3 (stable) $000	Grade 4 (moderate) $000	Grade 5 (acceptable) $000	Grade 6 (managed) $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						

(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.

Notes to the Financial Statements

30 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.

Year Ended 30 June 2018	Consolidated		Police & Nurses Limited	
	2018	2017	**2018**	2017
Capital adequacy ratio as reported to APRA at 30 June	**15.44%**	14.54%	**15.53%**	14.63%

Directors’ Declaration

In the Directors’ opinion:

a) the financial statements and notes set out on pages 22 to 64 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 2018 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Group and the Bank will be able to pay their debts as and when they become due and payable.

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

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

P.M. Gabb

P M GABB
Director

S J MELVILLE
Director

Date: 27 August 2018
PERTH, WA

Independent Auditor's Report

Independent auditor's report

To the members of Police & Nurses Limited

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2018 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 2018
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company cash flow statements for the year then ended
- the Consolidated and Company income statements and statements of comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the 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 comprises the information included in the Group's annual report for the year ended 30 June 2018, including 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.

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

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/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll
Partner

Perth

27 August 2018

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