

ANNUAL REPORT

2016



policebank
member owned banking



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MISSION STATEMENT

Police Bank is a community of Members, Directors and Staff who together form an important and integral part of the life of Police, family and associated community groups.

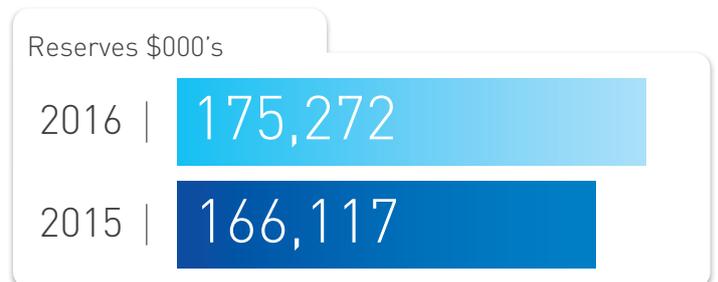
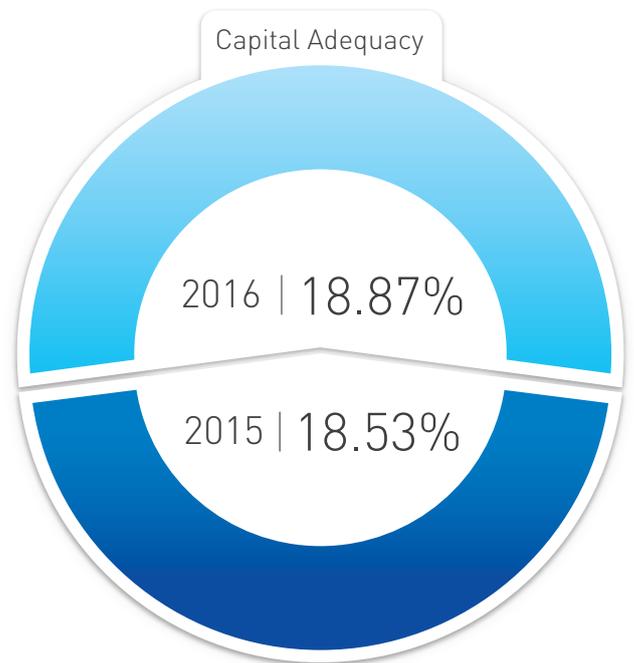
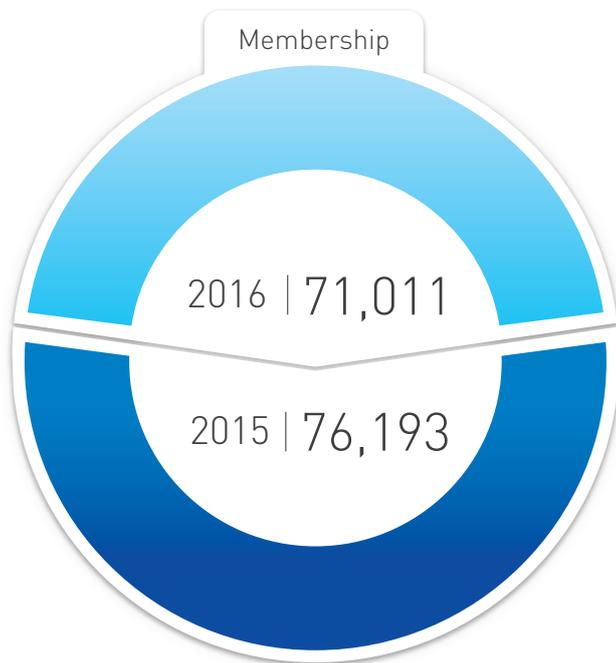
Directors and Staff operate in the interest of all Members according to the following key values:

- A flexible and caring response to Members' needs;
- Honouring excellence in relationships between and among Members, Directors and Staff;
- Personal honesty and integrity.

We provide personal attention to the financial well-being of each Member through flexible products and services in a competitive environment combined with prudential financial management in pursuing appropriate levels of growth.

We work together in building the Police Bank to become the best in Member service, range of relevant products and services, management practices and financial strength.

KEY STATISTICS



DIRECTORS' REPORT

Your Directors submit the Financial Accounts of the Bank for the financial year ended 30 June 2016.

Directors' and Officers' Disclosures

The names of Directors and Officers in office at the date of this report, or who held office during the course of the financial year, are:

David Charles Walton (Chairman)
Colin James Dyson (Deputy Chairman)
Raff Del Vecchio
Geoffrey Richard Green
Anthony Raymond Lauer (retired 26 November 2015)
Gregory John McKenna
Robert John Redfern
Lloyd William Taylor
Scott David Weber

Bruce Williams (CEO, resigned 19th Feb 2016)
Tony Taylor (CEO, appointed 22nd Feb 2016)
Anthony Sluiter (CFO, resigned 17th Jun 2016)
Coco Liu (Interim CFO, appointed 20th Jun 2016)
Tim Moseley (Company Secretary, resigned 1st Jul 2016)
Jennifer Jurss (Company Secretary, appointed 4th Jul 2016)

	Board		Audit Committee		Risk Committee		Governance Committee	
	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended
Walton	13	13	-	-	-	-	2	2
Dyson	13	13	4	4	4	4	2	2
Del Vecchio	12	13	4	4	-	-	2	2
Green	12	13	4	4	-	-	2	2
Lauer	6	6	-	-	-	-	-	-
McKenna	13	13	4	4	4	4	-	-
Redfern	12	13	4	4	3	4	-	-
Taylor	13	13	-	-	4	4	2	2
Weber	13	13	-	-	-	-	1	2

Directors also attended a 1 day pre Strategic Planning Workshop on 7th February 2016 and a weekend Planning Session between 13th -14th May 2016 to formulate the Strategic Plan for 2016 – 2021 and Business Plan for 2016 – 2017.

Notes:

Directors Del Vecchio, Green and Redfern were granted a leave of absence for one Board meeting each.

From 22 June 2016, the Bank has appointed Mr. Greg McKenna as an Executive director and a part-time Treasury consultant. Greg worked as a consultant for the Bank cumulatively for 3 days in FY16, and received a total of \$7.5k plus 10% GST consulting fee.

Directors' Benefits

One director (Mr. Greg McKenna) has become an Executive director and a part-time Treasury consultant for the Bank from 22 June 2016. Greg worked as a consultant for the Bank cumulatively for 3 days in FY16, and received a total of \$7.5k plus 10% GST consulting fee.

No other Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 34 of the financial report.

Indemnification and Insurance

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the Bank against any costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as an Officer of the Bank. The Officers of the Bank covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Bank.

Share Options

The Bank has not issued any options over shares. All shares issued by the Bank are withdrawable shares.

Principal Activities

The principal activities of the Bank during the year were the provision of financial and associated services to Members. There were no significant changes in the principal activities during the year.

Operating Results

The Bank's profit after providing for income tax amounted to \$8,829,938 with a return on average assets of 0.56%. Assets increased during the year by \$29.9M from \$1,525.3M to \$1,555.1M. The year's growth had no impact on the capital adequacy ratio which is 18.87%. At 18.87% the capital adequacy ratio remains well above the statutory minimum of 8%. The Bank loan portfolio grew by 9.26% during the year.

The Bank continues to be a strong performing institution and these results were achieved in an environment where the ongoing effects of the global financial crisis continue, and competition in the domestic banking industry continues to be intense with depositors benefiting from higher margins. The results reflect the continuing support of the Membership for the products and services offered by the Bank and the ongoing attention given by both the Board and Management to Member service, relevant products and the control of costs. It is envisaged that the results for the year ending 30 June 2017 will be similar to those achieved in 2016.

Dividends

Dividends paid or declared by the Consolidated Group since the end of the previous financial year was \$896,000, paid to the shareholders of Chelsea Wealth Management Pty Ltd. Police Bank Ltd is the majority shareholder of Chelsea Wealth Management Pty Ltd. The dividend was 100% franked.

Non-Audit Services

Non audit services were provided by Grant Thornton (auditor of the Bank) amounting to \$13,750.

Review of Operations

The results of the Bank's operations from its activities of providing financial services to Members did not change significantly from those of the previous year.

During the year a number of significant activities and events took place:

- **New CEO Appointment, Anthony (Tony) Taylor** - In February this year, Tony Taylor was appointed as the Police Bank CEO. Tony has held senior executive roles in the financial services sector for the last 16 years and brings a significant understanding of retail banking in Australia to Police Bank. Most recently, as CFO at CUA (Australia's largest financial services mutual), Tony led its financial transformation and built an excellent team that delivered the finance, treasury, legal, board and governance skills & responsibilities required of a growing ADI in today's competitive market.
- **Annual Employee Awards** - Police Bank has in place a formal employee recognition program where exceptional staff performance is acknowledged and rewarded. The major award, 'Star Achiever', is presented to staff who consistently display an outstanding level of commitment and service. Congratulations to our 2016 winners:

Brigitte Andrews – Technology and Change
Sharron Cooper – Newcastle Service Centre
Leanne Ford – Human Resources
Sarah Lockett – Campbelltown Service Centre

In addition to the above, the Police Bank 'Young Achiever' prize is awarded to acknowledge, encourage and promote the positive achievements of young employees of the Bank. Congratulations to Alex Olisoff our 2016 winner. The 'Service Centre of the Year' Award was presented to our Canberra operation with the 'Sales Person of the Year' awarded to Evana Tan with Janet Murrell taking the runner-up prize.

- **Continued Sponsorship Association with NSW Police Legacy** - The Bank during the year continued our sponsorship association with Police Legacy. The Bank is recognised as a 'Major Sponsor' providing financial and operational support. Police Bank is proud to assist Legacy to help continue their excellent work assisting Police families.
- **New Police Bank Service Centres** - As part of Police Bank's commitment to continually improve facilities for our Members, two new Service Centres in Parramatta and Surry Hills were opened during the year. Members in these locations now have access to more modern premises. The new Parramatta Centre services our Members from the NSW Police Headquarters in Parramatta and surrounding areas whilst the Surry Hills Centre is conveniently located next to the Sydney Police Centre.
- **Industry Recognition Awards** - Police Bank received awards from independent rating agencies during the year. The Bank was recognised in Mozo's People's Choice Awards, the only banking awards judged by customers with over 20,000 people rating their provider. Police Bank took out 3 prestigious awards, 'Customer Satisfaction', 'Most Recommended Bank' and 'Top 5 Mutual Bank'. Our Visa Credit Card product was also awarded a Gold Medal for 'Best Low rate Credit Card' in Mozo's Expert Choice Awards and 'Outstanding Value Credit Card' by Canstar. Our Online Supersaver also won an Expert's Choice Award from Mozo in their 'Base Rate Savings Account' category for our Online Supersaver Account.
- **Recognition of Police Academic Achievement** - In partnership with Charles Sturt University, Police Bank sponsors an academic achievement award at the Goulburn Police Academy recognising Student Officers who have excelled with their studies.
- **Police Bank Green Initiatives** - Police Bank is committed to improving the environment by undertaking a number of environmental initiatives. Producing electronic statements, engaging environmentally efficient suppliers, recycling of paper

and a level of self sufficient water and power facilities at the Goulburn Processing Centre are some of the actions currently in place.

- **Community Employee Engagement** - During the year Police Bank staff were active with various initiatives to assist individuals and communities. A number of charities such as Police Post Trauma Support Group, Starlight Foundation, Cancer Council, Jeans 4 Genes and the National Breast Cancer Foundation Australia all benefited from the fund raising efforts of Police Bank employees.
- **Continuous Operational Improvement** - Management has maintained its focus on continuous internal improvements through re-engineering of underlying processes aimed at improving Member service and internal productivity. The desired outcomes are to grow whilst limiting the need for additional capital, keeping cost increases to a minimum and to meet price competition without significantly impacting upon profitability.
- **Staff Development** - During the year all Service Centre staff participated in a 2 day credit and compliance focussed training program which provides our team with the necessary skills to service our Members.
- **Family Fun Days** - This year two Family Fun Days were held at Wet'n'Wild Amusement Park. The events are designed to provide an opportunity to show appreciation to Members for their support of Police Bank. In all over 600 Members took the opportunity to enjoy a family oriented day at this fun venue.
- **Annual Police Bank Charity Golf Day** - Police Bank held its Annual Charity Golf Day in May 2016 at the Moore Park Golf Course. The event was well supported by Members with all money raised from the day being donated to the Post Trauma Support Group and NSW Police Legacy.
- **Police Bank Coffee Cart** - Our coffee cart was launched to support sponsored events with our team of BDO Baristas providing coffees for a gold coin donation, all donations going to support the sponsored event.
- **Police Student Survival Kits** - As part of our support of the Police Community we recently introduced an initiative to provide a survival kit for all students entering the Police Academy in Goulburn. The kit includes fun items that the students may need including, beanies, lollies, sewing kits, reusable coffee cups and much more.
- **Additional Products/Enhancements:**
 - **Mobile Banking App** - In October this year we launched the free Police Bank and Customs Bank App for iOS and Android smartphones. The App provides Members with quick and secure access to their accounts and balances. Fitted with latest NFC technology, the Police Bank App allows Members to make contactless payments (up to \$100) with Visa payWave (only available on Android KitKat 4.4 and above). Members can make transfers and BPAY payments quickly, easily and on the go. The App gives Members the ability to change the PIN and report lost or stolen Police Bank Visa Cards and find their nearest rediATM/Service Centre.

Website Upgrade - A new website was launched designed to make it easier to find what Members are looking for including a improved new look with engaging content, user friendly mega menu for easy selection, and an enhanced responsive design for better user experience on all devices. As part of this update we launched a new online loan application form, where Members can easily apply for a loan in under 10 minutes.

Internet banking upgrade - Housed on a future ready and intuitive platform, the internet banking upgrade included a new modern look, with quick links for easier navigation. The responsive design provides a better user experience on tablets.

Green Loan - Launched in June this year, a personal loan product which rewards Members with a special low rate when borrowing for a green initiative, such as solar hot water

systems, rainwater tanks, green vehicles or top energy saving white goods.

Goldrate Home Loan - A new discounted variable rate home loan was launched during the year. The loan features no annual or monthly fees, redraw facility and no penalties.

- **Police Bank Sponsorship Program** - Police Bank is strongly committed to the Police Community and through our sponsorship program we generously supported during the year a varied number of Police charities, events and fund raisers. Many of these sponsorships have contributed towards significantly improving the lives of individuals as well as assisting with community projects. Some of the events Police Bank sponsored were:

Women in Policing - During 2015 the NSW Police Force is celebrated 100 years of Women in Policing. To honour this important historic achievement, Police Bank is proud to be a sponsor of a number of special celebratory events.

Police Association Biennial Conference - Police Bank was proud to be a Platinum Sponsor of the Police Association conference with approximately 200 delegates and guests, predominantly serving members of NSW Police Force, representing members from all Police workplaces in NSW.

Annual Police Legacy Blue Ribbon Ball - Police Bank continues to be a key sponsor of this prestigious event which is the major fundraising activity for Police Legacy.

Police Officer of the Year Awards - In conjunction with Rotary, Police Bank sponsors a number of special awards that recognises the dedication and service of Police Officers to our community.

Wall to Wall Motor Cycle Ride for Remembrance - To honour the sacrifice and commitment of fallen officers, Police Bank is proud to support the Sydney to Canberra Ride which raises valuable funds for police charities.

NSW Police Legacy Remembrance Bicycle Ride - Police Bank supports this growing annual event where riders brave challenging conditions to pedal over 300 kilometres from Sydney to Canberra to raise funds for Police Legacy.

Significant Changes In State Of Affairs

There were no significant changes in the state of the affairs of the Bank during the year.

Events Occurring After Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Bank in subsequent financial years, except for:

- **Price Competition** - Police Bank provides an excellent level of service, which allows it to compete on more than price alone. However, the Board and Management are mindful that competition cannot be ignored and that price is certainly a factor in Members' consideration of their ongoing relationship with the Bank. However, being a mutual organisation and not having to provide dividends for shareholders does allow room to pass on pricing reflective in the marketplace.
- **Global Financial Markets** - Global turmoil could have a flow-on effect locally and impact on asset prices. Police Bank has no direct exposure to any overseas activity and is well placed to whether any effects of the volatility. Police Bank continues to adopt safe and conservative lending and investment practices.

Likely Developments and Results

The likely developments in the operations of the Bank and the expected results of those operations in the financial year subsequent to the year ended 30 June 2016 are as follows:

The Board of Directors anticipate that the profit will be in the vicinity of 0.50% - 0.80% return on average assets.

Planned capital expenditure on infrastructure amounts to \$1.0M for the year ending 30 June 2017. This covers general equipment, core banking upgrades and computer hardware upgrades.

No other matter, circumstances or likely developments in the operation has arisen since the end of the financial year that has significantly affected or may significantly affect:

- (i) The operations of the Bank;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Bank

in the financial years subsequent to this financial year.

Auditor's Independence Declaration To the Directors of Police Bank Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Police Bank Ltd for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

GS Layland
Director - Audit & Assurance

Sydney, 28th September 2016

CEO'S REPORT

It is a privilege to have been appointed CEO of Police Bank in February 2016. The major attraction (for me personally) of Police Bank was the significance of the bond of the Police Family. The understanding of the bond and our knowledge of our all Members provides every colleague at Police Bank with a very clear goal. Police Bank must become *"the trusted bank of choice for the Police Family and associated community groups"*.

As part of this journey, Police Bank has a significant responsibility to provide relevant and sustainable financial support to our membership. The 'relevant' component of this intent refers to how we want our members to feel about what they are getting from their Police Bank relationship. We will measure our success in this endeavour through indicators such as member satisfaction, retention and products per member. The 'sustainable' component references our ability to grow and strengthen Police Bank for the next generation of Members and staff, and the generation to follow them.

A look back on our 2016 Operations

2016 was a very strong year for Police Bank with many significant outcomes but I do feel the need to focus on four aspects of our operational performance to give further clarity to the outcomes we saw in 2016. These are:

1. Loan book growth
2. Membership
3. Profitability
4. Investment in Risk management

Loan book growth: The Bank's loan portfolio grew 9.26% in 2016. This was a strong outcome, with the growth coming mainly in the second half of 2016 financial year (FY16). The new Goldrate Home Loan and competitive revamping of our Personal Loan portfolio drove this second half performance.

Loan growth is a strong indicator of relevance and sustainability. Sustainable (at system or above) growth is looked upon favourably by various stakeholders (Members, credit rating agencies, etc). Standard and Poor's recently reaffirmed their BBB+/Stable rating for Police Bank, noting the solid loan growth seen in FY16 as a positive improvement on recent performance.

Membership: As can be seen, membership in 2016 has dropped significantly by 5,182 from previously communicated levels (2015: 76,193; 2016: 71,011). On my arrival, Police Bank completed a comprehensive dormant member review which saw 5,340 memberships closed in February and March. This was the first such review in 8 or more years and correctly base lined our membership position.

Membership growth is essential for a relevant and sustainable financial institution. Since the February/March 2016 dormancy review, we have grown membership by 583 in the last quarter of 2016 through various product and member focussed initiatives. Membership growth is a key element of our focus for the year ahead. Importantly, Police Bank must address the lack of growth in membership in the key demographic of 25 to 40 year olds.

Profitability: Police Bank remains a very strong financial institution and continues to deliver solid financial outcomes.

Making a profit as a mutual bank is very important. We are not a Not-for-Profit organisation as we must deliver profitable operations to grow our capital base to support the ability to fund new loans in the future. Also, to support this, we must continue to focus on our operational efficiency and ensure we are delivering superior Member service at an efficient cost so that we maximise the investment approved by Board in our systems and colleagues.

Though headline profit after tax has dropped by \$2.881M (2015: \$11.711M; 2016: \$8.830M) in 2016 the underlying year results confirm the strong financial results of Police Bank. If we refer to the table below, we can see that the 2015 result was significantly and positively impacted by a one-off accounting adjustment to our General Reserve for Credit Losses. Excluding this entry, Police Bank's underlying profit after tax from operations was \$10.313M. The 2016 underlying profit after tax from operations of \$10.512M compares favourably to 2015 when adjusted for restructuring costs associated with CEO exit payments, staff redundancies and fixed asset write downs.

	Operating Profit After Tax	Accounting Policy Adjustments	Restructuring Costs (tax effected)	Underlying Profit After Tax
Financial Year	\$	\$	\$	\$
2014/15	11,711,341	(1,398,058)	-	10,313,283
2015/16	8,829,938	-	1,682,348	10,512,286

Investment in Risk Management: On arrival at Police Bank, I saw we needed to invest in our risk management resourcing and systems. These observations were confirmed with an APRA IT and Operational Risk Regulatory Review in May 2016 that identified gaps to various prudential standards and peer risk management investment. We have taken immediate action through development of our Risk Assurance Management Plan (RAMP). RAMP kicked off in Q4/2016 and is the major investment focus for the new financial year.

Both Board and Management are committed to delivering the risk management systems and risk culture amongst our colleagues that Police Bank Members require of their trusted bank. We have a strong bank and our goal is to make it stronger, much stronger.

FY17 – the year ahead!

As we look forward, Police Bank is well positioned for delivering on its vision of being the trusted bank of choice for *“the trusted bank of choice for the Police Family and associated community groups”*.

By developing meaningful products and experiences based on an informed understanding of our core members, Police Bank will look to grow sustainably through embedding a mature risk culture and strong governance focussing on the financial stability of the bank. In 2017, Police Bank will grow safely and sustainably and become a benchmark for the mutual sector in risk management.

Our investment portfolio for FY17 has 3 areas of focus. These are:

- (i) our risk management program discussed previously (RAMP),
- (ii) preparation for various new payments processes and technologies that impact all Australian financial services institutions and
- (iii) various initiatives to drive membership growth.

To prepare us for the imminent responsibility of the new payments platform (NPP), Police Bank is upgrading its Ultradata core banking platform as well as establishing the necessary links and controls from our transactional switch provider (Cuscal) and our core system. We also look to prepare for new payment innovations such as Apple Pay (noting we were amongst the first to deliver Android Pay for contactless payments).

Membership growth initiatives including maturing our product capability, building a leads management system and improving our call centre capability are going to be delivered. Also, continued mobile device innovation that targets the millennials who are so important for the future membership base of Police Bank.

In conclusion, whilst the challenges of being a small bank in this very competitive market are many, I am very optimistic about Police Bank's future. We will focus on our members financial needs and we will become *“the trusted bank of choice for the Police Family and associated community groups”*.

Information on Directors and CEO

Mr D C Walton

Chairman

Age	51
Qualifications	Corporate Governance Program, Harvard Business School Company Directors Course Diploma, Australian Institute of Company Directors Master of Management & Leadership Bachelor of Business
Experience	Fellow, Australian Institute of Company Directors Auditor, Retired Police Association Auditor, NSW Police RSL Sub-Branch Regulator, NSW Tow Truck Industry Committee of Management, Federation of Police Mutuals Vice President, Special Olympics Sydney North Vice President, Queenscliff Surf Life Saving Club Former Manager of International Academic Programs, Australian Institute of Police Management Former Executive Audit Manager, Ausgrid Former Detective Inspector of Police, NSW Police Force Former casual Academic, Charles Sturt University and University of Western Sydney Board Member since 2001
Directorships	Chelsea Wealth Management Pty Limited
Interest in Shares	\$10.00 in ordinary shares in the Police Bank



Mr C J Dyson

Deputy Chairman

Age	62
Qualifications	Risk Committee (Chairman) Audit Committee Corporate Governance Committee Advanced Certificate, Personnel Management (TAFE 1991) NSWPF Command Development Program (1997) Graduate Certificate, Management (Wollongong University 1999) NSWPF Strategic Leadership Program (2011) Company Directors Course (Aust Institute of Company Directors 2013) Life Member, International Assoc of Financial Crime Investigators Member, Association of Certified Anti-Money Laundering Specialists Member, Australian Institute of Company Directors Member, Retired Police Association
Experience	Board Member since 2012 Former Detective Superintendent of Police Former Commander of the NSWPF Fraud and Cybercrime Squad
Directorships	Chelsea Wealth Management Pty Limited
Awards	Australian Police Medal National Medal-2nd clasp NSW Police Medal-6th clasp National Police Service Medal
Interest in Shares	\$10.00 in ordinary shares in the Police Bank



Mr R Del Vecchio

Director

Age	47
Qualifications	Corporate Governance Program, Harvard Business School Company Directors Course Diploma, Australian Institute of Company Directors Graduate, Australian Institute of Company Directors Post Graduate Diploma in Criminology Fellow, Australian Institute of Company Directors Bachelor of Policing
Experience	Member, Australasian Mutuals Institute Executive Officer - Trustees of Mary Aikenhead Ministries Former Head of Administrative Services, Police Association of NSW Former Chairman, Police Shop of NSW Former Director, Police Legacy NSW Former Member, Police Superannuation Advisory Board Member, Retired Police Association Senior management positions within financial institutions – specialising in fraud identification, risk management & card operations Co-author of ACTU publication on Financial Best Practices in Trade Unions (nationally published) Board Member since April 2008
Interest in Shares	\$10.00 in ordinary shares in the Police Bank



Mr G R Green

Director

Audit Committee
Corporate Governance Committee
70

Age
Qualifications

LL.B. (Hons)
Barrister of the Supreme Court of NSW
Fellow, Australasian Mutuals Institute

Experience

Former Secretary Legal & Senior Vice President of the Police Association of NSW
Life Member, Police Association of NSW
Member, Retired Police Association

Interest in Shares

Member, Australian Institute of Company Directors
Board Member since 1989
\$10.00 in ordinary shares in the Police Bank



Mr A R Lauer

Director (Retired 26 November 2015)

80

Age
Qualifications

Diploma in Criminology (University of Sydney) (1973)
Graduate, NSW Police Senior Executive Course (Merit) (Australian Police College) (1986)
Graduate, Senior Executive Police Officer Course (Australian Police Staff College) (1987)
Graduate, Seventeenth National Executive Institute – Federal Bureau of Investigation Academy (Quantico, Virginia, USA) (1994)
Honorary Fellow, NSW Police Academy (1996)

Experience

Associate Fellow, Australian Mutuals Institute (1996)
Career Police Officer (1955 – 1996)
President, Police Association of NSW (1979 – 1982)
Commissioner of Police 1991 – 1996
Board Member 1997 – 2015

Interest in Shares

\$10.00 in ordinary shares in the Police Bank



Mr G J McKenna

Director

Audit Committee
Risk Committee

Age
Qualifications

47

Bachelor of Business (Banking & Finance) 1996 Monash University
Master of Applied Finance 2002
Company Directors Course Diploma, Australian Institute of Company Directors
Member Australian Institute of Company Directors
Director Greg McKenna Pty Ltd (2005 – present)
Appointed Director July 2012

Experience

29 years experience in banking and finance
\$10.00 in ordinary shares in the Police Bank

Interest in Shares



Mr R J Redfern

Director

Audit Committee (Chairman)
Risk Committee

Age

54

Qualifications

Executive Masters in Public Administration
Bachelor of Laws
Bachelor of Economics
Diploma in Applied Criminology and Police Management
Master of Studies (Cantab)

Other Qualifications

Awarded the Australian Police Medal
Awarded National Medal

Experience

Awarded the Commissioners Commendation for Service
Current Commander Workforce Safety NSWPF
Member, Board of the Parramatta Mission
Member, Steering Committee of the Parramatta Criminal Justice Clinic
Solicitor, Supreme Court NSW
Solicitor, High Court of Australia
Member, Law Society of NSW
Member, Australian Corporate Lawyers Association
Head of Civil Law
Commander, State Audit Branch
Director of Legal Services
Former Commander of Parramatta and Miranda LACs
Board Member Since July 2013

Interest in Shares

\$10.00 in ordinary shares in the Police Bank



Mr L W Taylor

Director

Risk Committee
Corporate Governance Committee

Age

76

Qualifications

Mediator, Australian Commercial Disputes Centre
Fellow, Australasian Mutuals Institute

Experience

Member Australian Institute of Company Directors
Former President, Federation of Police Credit Unions (Australia) (1999 – 2006)
Convenor, Juvenile Justice (1997 – 2009)
Deputy Chairman, 1992 – 1996, Chairman (1996 – 2001)
Former Audit Chairman
Former Secretary Administration, Police Association of NSW
Former President, Police Association of NSW
Life Member, Police Association of NSW
Life Member, Police Federation of Australia & New Zealand
Member, Retired Police Association
Member, Police Education Advisory Committee (1988 – 1996)
Member, Police Superannuation Advisory Committee (1986 – 1997)
Foundation Member, Police Legacy
Board Member since 1988

Interest in Shares

\$10.00 in ordinary shares in the Police Bank



Mr S D Weber

Age	42
Qualifications	Corporate Governance Committee Company Directors Course Australian Institute of Company Directors Bachelor of Policing
Experience	President - Police Association of NSW (current) Vice President - Police Association of NSW Vice President - Police Federation of Australia (current) Treasurer - Police Federation of Australia Executive Member - Police Association of NSW Executive Member - Police Federation of Australia NSW Police Force (Sergeant of Police) Former Member - Police Superannuation Advisory Board Board Member since 2015
Interest in Shares	\$10.00 in ordinary shares in the Police Bank



Mr T Taylor

Age	55
Qualifications	Chief Executive Officer (Appointed 22nd February 2016) Fellow of CPA Australia Fellow Member of Finsia Australian Institute of Company Directors
Experience	CFO Credit Union Australia (CUA) Director CUA Health Director Credicorp Finance CFO Retail, Bankwest CFO Bank South Pacific
Interest in Shares	\$10.00 in ordinary shares in the Police Bank



DIRECTORS' DECLARATION

Acknowledgments

In concluding this Report, the Board wishes to acknowledge its appreciation of Tony Taylor, Chief Executive Officer, the Management and staff of the Bank without whose expertise and commitment the achievements of the past year would not have been achieved.

This Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



David C Walton
Chairman
28th September 2016



Colin Dyson
Deputy Chairman

Police Bank Ltd

Directors' Declaration

The Directors of Police Bank Ltd declare that:

In the opinion of the directors of Police Bank Ltd:

- a) the financial statements and notes of Police Bank Ltd and its controlled entities are in accordance with the Corporations Act 2001, including
 - i) giving a true and a fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
 - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that Police Bank Ltd and its controlled entities will be able to pay its debts as and when they become due and payable.
- c) the financial statements comply with International Financial Reporting Standards, as stated in Note 1.

Signed in accordance with a resolution of the directors.



David C Walton
Chairman
28th September 2016



Colin Dyson
Deputy Chairman

INDEPENDENT AUDITOR'S REPORT

To the Members of Police Bank Ltd:

We have audited the accompanying financial report of Police Bank Ltd (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a. the financial report of Police Bank Ltd is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



GS Layland
Director - Audit & Assurance
Sydney, 28th September 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June
2016

	Note	Consolidated		Police Bank	
		2016 \$	2015 \$	2016 \$	2015 \$
Interest Revenue	2a	71,845,873	75,817,640	71,845,539	75,817,229
Borrowing Costs	2b	32,653,264	37,462,610	32,653,264	37,462,610
Net Interest Revenue		39,192,609	38,355,030	39,192,275	38,354,619
Other revenue from ordinary activities	3	11,012,182	10,455,466	8,884,902	8,128,480
Impairment losses on Loan Receivables from Members	4a	328,207	(624,058)	328,207	(624,058)
Fees and Commission		6,710,110	5,956,358	6,710,110	5,956,358
General Administration					
- Personnel expenses		18,590,437	16,290,033	17,389,546	15,212,589
- Depreciation and amortisation		2,399,713	1,083,576	1,898,044	907,423
- Lease expenses		780,692	1,829,226	780,692	1,829,226
- Other administration expenses		4,370,868	3,887,039	4,168,310	3,519,144
Other operating expenses		4,522,441	3,783,644	4,522,441	3,783,644
Operating Profit before Income Tax		12,502,323	16,604,678	12,279,827	15,898,773
Income Tax Expense	5	3,672,385	4,893,337	3,313,076	4,446,623
Operating Profit after Income Tax		8,829,938	11,711,341	8,966,751	11,452,150
Other comprehensive income that will be eventually recognised in income					
- Changes in the fair value of cash flow hedges		504,194	(120,071)	504,194	(120,071)
- Gain on Available for Sale Investment		-	-	-	-
Total comprehensive income		9,334,132	11,591,270	9,470,945	11,332,079
Attributable to:					
Non Controlling Interests		174,451	200,993	-	-
Members of the parent entity		9,159,681	11,390,277	9,470,945	11,332,079
		9,334,132	11,591,270	9,470,945	11,332,079

These accounts should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Police Bank	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
Balance 1 July 2014	364,520	106,797,282	2,543,732	3,557,306	268,875	1,430,212	38,602,091	153,564,018
Operating Profit for the year	-	11,452,150	-	-	-	-	-	11,452,150
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	10,630	(10,630)	-	-	-	-	-	-
- Reserves for Credit Losses	-	1,398,058	-	(1,398,058)	-	-	-	-
- Transfer of Engagements	-	2,543,732	(2,543,732)	-	-	-	-	-
- Capital Profits Reserve	-	1,430,212	-	-	-	(1,430,212)	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	(120,071)	(120,071)
Balance 30 June 2015	375,150	122,410,804	-	2,159,248	268,875	-	39,682,020	164,896,097
Balance 1 July 2015	375,150	122,410,804	-	2,159,248	268,875	-	39,682,020	164,896,097
Operating Profit for the year	-	8,966,751	-	-	-	-	-	8,966,751
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	36,910	(36,910)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(140,447)	-	140,447	-	-	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	504,194	504,194
Balance 30 June 2016	412,060	130,000,198	-	2,299,695	268,875	-	41,386,214	174,367,042

Consolidated

	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
Balance 1 July 2014	364,520	106,851,789	2,543,732	3,557,306	268,875	1,430,212	39,661,494	154,677,928
Operating Profit for the year	-	11,711,341	-	-	-	-	-	11,711,341
Profit attributable to non-controlling Interest	-	(200,993)	-	-	-	-	200,993	-
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	10,630	(10,630)	-	-	-	-	-	-
- Reserves for Credit Losses	-	1,398,058	-	(1,398,058)	-	-	-	-
- Dividends Paid	-	-	-	-	-	-	(152,000)	(152,000)
- Transfer of Engagements	-	2,543,732	(2,543,732)	-	-	-	-	-
- Capital Profits Reserve	-	1,430,212	-	-	-	(1,430,212)	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	(120,071)	(120,071)
Balance 30 June 2015	375,150	122,523,509	-	2,159,248	268,875	-	40,790,416	166,117,198
Balance 1 July 2015	375,150	122,523,509	-	2,159,248	268,875	-	40,790,416	166,117,198
Operating Profit for the year	-	8,829,938	-	-	-	-	-	8,829,938
Profit attributable to non-controlling Interest	-	(174,451)	-	-	-	-	174,451	-
Transfers to and from Reserves								
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	36,910	(36,910)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(140,447)	-	140,447	-	-	-	-
- Dividends Paid	-	-	-	-	-	-	(179,200)	(179,200)
Cash Flow Hedge Reserve	-	-	-	-	-	-	504,194	504,194
Balance 30 June 2016	412,060	129,801,639	-	2,299,695	268,875	-	42,489,861	175,272,130

These accounts should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016		Consolidated		Police Bank	
		2016 \$	2015 \$	2016 \$	2015 \$
Assets	Note				
Cash and Liquid Assets	6	41,163,039	69,747,921	40,768,835	69,086,807
Receivables due from other Financial Institutions	7	50,000,000	76,000,000	50,000,000	76,000,000
Accrued Receivables	8	3,976,606	4,573,626	3,720,063	4,311,106
Investment Securities	9	210,449,812	228,335,019	210,449,812	228,335,019
Loans and Advances	10 & 11	1,210,355,887	1,107,599,386	1,210,355,887	1,107,599,386
Available for Sale Investments	12(a)	8,794,855	8,116,806	8,794,855	8,116,806
Investment in Subsidiary	12(b)	-	-	4,723,717	4,723,717
Property Plant and Equipment	13	23,666,014	23,881,597	23,554,370	23,698,325
Intangible Assets	14	5,337,945	5,630,490	90,535	90,814
Taxation Assets	15	1,388,122	1,383,506	1,388,122	1,383,506
Tax Receivable	20	-	-	191,087	-
Total Assets		1,555,132,280	1,525,268,351	1,554,037,283	1,523,345,486
Liabilities					
Payables to other Financial Institutions	16	106,357,159	133,062,019	106,357,159	133,062,019
Deposits and Borrowings	17	1,254,379,384	1,203,336,196	1,254,379,384	1,203,336,196
Creditors and other Liabilities	18	16,315,747	16,290,313	16,170,202	16,098,437
Provisions	19	2,552,710	2,973,156	2,552,710	2,973,156
Taxation Liabilities	20	44,364	2,774,489	-	2,264,601
Derivative Fair Value		210,786	714,980	210,786	714,980
Total Liabilities		1,379,860,150	1,359,151,153	1,379,670,241	1,358,449,389
Net Assets		175,272,130	166,117,198	174,367,042	164,896,097
Member Funds					
Capital Account	21	412,060	375,150	412,060	375,150
Reserves		44,165,570	42,825,123	44,165,570	42,825,123
Retained Profits		129,801,639	122,523,509	130,000,198	122,410,804
Cash Flow Hedge Reserve		(210,786)	(714,980)	(210,786)	(714,980)
Non-Controlling Interest		1,103,647	1,108,396	-	-
Total Member Funds		175,272,130	166,117,198	174,367,042	164,896,097

These accounts should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For Year Ended 30 June 2016

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Cash Flow From Operating Activities Note				
Interest Received - Loans	59,761,159	61,935,128	59,761,159	61,935,128
Other Income	23,069,699	23,510,514	20,225,285	20,575,117
Dividends Received	491,516	620,497	1,208,316	1,228,497
Interest Paid	(34,379,667)	(37,933,608)	(34,379,667)	(37,933,608)
Suppliers and Employees	(35,492,047)	(28,991,430)	(33,276,723)	(27,143,078)
Taxes Paid	(4,343,054)	(3,880,507)	(4,343,054)	(3,880,507)
Net Cash from Revenue Activities 38c	9,107,606	15,260,594	9,195,316	14,781,549
Inflows from Other Operating Activities				
Net Movement in Member Loans	(103,259,070)	(44,098,574)	(103,259,070)	(44,098,574)
Net Movement in Member Shares	(36,180)	(10,570)	(36,180)	(10,570)
Net Movement in Deposits	51,079,368	103,791,522	51,079,368	103,791,522
Net Cash from Operating Activities	(43,108,276)	74,942,972	(43,020,566)	74,463,927
Cash Flows from Investing Activities				
Investment Redemption	739,383,455	936,156,728	739,383,455	936,156,728
Proceeds from Sale of Fixed Assets	89,498	93,000	89,498	93,000
Purchase of Investments	(696,176,298)	(971,087,294)	(696,176,298)	(971,087,294)
Purchase of Fixed Assets	(1,889,200)	(19,518,102)	(1,889,200)	(19,498,902)
Net Cash Used in Investing Activities	41,407,455	(54,355,668)	41,407,455	(54,336,468)
Cash Flow from Financing Activities				
Net Movement in Borrowings	(26,704,861)	12,303,107	(26,704,861)	12,303,107
Dividend Paid	(179,200)	(152,000)	-	-
Net Cash Provided by Financing Activities	(26,884,061)	12,151,107	(26,704,861)	12,303,107
Net Increase (Decrease) in Cash	(28,584,882)	32,738,411	(28,317,972)	32,430,566
Cash at Beginning of Year	69,747,921	37,009,510	69,086,807	36,656,241
Cash at End of Reporting	41,163,039	69,747,921	40,768,835	69,086,807
Reconciliation of Cash at End of Reporting Period 38a				
Cash	9,120,417	22,699,809	8,726,213	22,038,695
Overdraft	-	-	-	-
Deposits at Call	32,042,622	47,048,112	32,042,622	47,048,112
Total	41,163,039	69,747,921	40,768,835	69,086,807

These accounts should be read in conjunction with the accompanying notes.

NOTES TO THE ACCOUNTS

1. Statement of Significant Accounting Policies

This financial report is prepared for Police Bank Ltd and subsidiaries' for the year ended the 30 June 2016. The report was authorised for issue on 28th September 2016 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

Police Bank Ltd is a public company incorporated and domiciled in Australia. The address of its principal place of business is 25 Pelican Street, Surry Hills NSW 2010.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Police Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of Measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets except for certain for sale investments which are stated at full value. The accounting policies are consistent with the prior year unless otherwise stated.

b. REPO securitisation trust consolidation

The Bank has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements. The Bank continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

- (i) The trust meets the definition of a controlled entity and,
- (ii) As prescribed under the accounting standards, since the Bank has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of the Bank and not derecognised.

c. Classification and subsequent measurement of financial assets

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss, are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Banks, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Bank.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held to maturity (HTM) investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. The Bank currently holds Term Deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes, and Bank Accepted Bills of Exchange in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available for Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

d. Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss (FVTPL), that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item is reflected in profit or loss, any gain or loss from the hedging instrument previously recognised in other comprehensive income is reclassified from equity to profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

e. Loans to Members

Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the profit or loss over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Bank at the reporting date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(i) Interest on Loans - Method of Calculation

Interest charged by the Bank on Members' loans funded before the introduction of the Consumer Credit Code on 1st November 1996, other than Overdrafts, are calculated on the basis of charging interest in the initial month from the date the loan is advanced, and thereafter on the first day of the month on the opening balance. On completion of a loan, a full month's interest is charged on the opening balance for the month in which the loan is finalised. For loans funded after 1st November 1996, the interest is calculated on the basis of the daily balance outstanding and is charged in arrears on the last day of each month.

(ii) Non Accrual Loan Interest

While still legally recoverable, interest is not brought to account as income when the Bank is informed that the Member has deceased, or on impaired loans where recovery of the debt is considered unlikely.

Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

Net gains and losses

Net gains and losses on loans to Members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

f. Loan Impairment

Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 11. Note 23 details the credit risk management approach for loans.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each reporting date to determine

whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for Members against the prospect that some Members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

g. Bad Debts Written Off

Bad debts are written off from time to time as determined by Management and the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the profit or loss.

h. Property, Plant and Equipment

Land and buildings are measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the profit or loss. Revaluation decreases are debited to the profit or loss unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Property, plant and equipment, with the exception of freehold land, are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Bank. The useful lives are adjusted if appropriate at each reporting date. The following rates are used:

Building	2.50%
Office Equipment	20.00%
EDP Equipment	37.50%
Motor Vehicles	25.00%
EDP Software	37.50%
Office Furniture and Fittings	20.00%
Leasehold Improvements	25.00%

Assets less than \$1,000 are not capitalised.

The property acquired during the 2015 financial year was provisionally accounted for as "work in progress" with payments made in respect of the building been recognised at cost. Transfers were made between the relevant asset classes as applicable in the current year.

i. Receivables from other Financial Institutions

Term deposits and Negotiable Certificates of Deposit with other Financial Institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity.

All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

j. Equity Investments and other Securities

Investments in marketable financial instruments

Available for sale financial instruments held for trading are measured at fair value.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

Investments in shares

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on the reporting date.

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

Movements in Available for Sale asset balances are reflected in equity through the Available for Sale Reserve.

All investments are in Australian currency.

k. Member Deposits

Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the reporting date.

Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

l. Borrowings

All 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 profit or loss over the period of the loans and borrowings using the effective interest method.

m. Provision for Employee Benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Bank does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 *Presentation of Financial Statements*.

Provision is made for the Bank's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been

measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Bank based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the Bank to an employee's superannuation fund and are charged to the profit or loss as incurred.

n. Leasehold on Premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

o. Income Tax

The income tax expense shown in the profit or loss is based on the profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

p. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Bank are classified as intangible assets. Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

The acquired financial planning business has been recognised as other identifiable intangible assets in the form of acquired customer relationships. These are being amortised over 20 years.

q. Goods and Services Tax

As a Financial Institution the Bank is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

r. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

s. Principles of Consolidation

The consolidated entity's financial statements comprise consolidated accounts of the Bank and its controlled entities. The effects of intercompany balances, transactions and unrealised profits arising between the controlled entities and the Bank are eliminated on consolidation.

t. Impairment of Assets

At each reporting date the Bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

u. Accounting Estimates and Judgements

Management have made judgements when applying the Bank's accounting policies with respect to:

- i. Derecognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 37.

Management have made critical accounting estimates when applying the Bank's accounting policies with respect to impairment provisions for loans - refer Note 11.

v. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting period. The Mutual Bank's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Mutual Bank have not been reported.

	Nature of Change	Application Date	Impact on Initial Application
<p>AASB reference</p> <p>AASB 9 Financial Instruments (December 2015)</p>	<p>Amends the requirements for classification and measurement of financial assets.</p> <p>Recognition of credit losses are no longer be dependent on the Mutual Bank first identifying a credit loss event. The Mutual Bank will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.</p> <p>The rules for hedge accounting have been overhauled to better reflect the Mutual Bank's underlying risk management activities in the financial statements.</p>	<p>Periods beginning on or after 1 January 2018.</p>	<p>Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2019 year end. The Mutual Bank has not yet made a detailed assessment of the impact of these amendments.</p> <p>However, based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted.</p>
<p>AASB 15 Revenue from Contracts with Customers</p>	<p>Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of revenue.</p>	<p>Periods beginning on or after 1 January 2017.</p>	<p>Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as few revenue transactions of the Mutual Bank are impacted by the new standard.</p>
<p>AASB 16 Leases Replaces AASB 117</p>	<p>AASB 16:</p> <ul style="list-style-type: none"> replaces AASB 117 Leases and some lease-related Interpretations requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases provides new guidance on the application of the definition of lease and on sale and lease back accounting requires new and different disclosures about leases 	<p>Periods beginning on or after 1 January 2019</p>	<p>The Mutual Bank is yet to undertake a detailed assessment of the impact of AASB 16.</p> <p>However, based on the Mutual Bank's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020, since the Mutual Bank owns its premises and other operating leases are minimal.</p>

2. Statement of Profit or Loss and Other Comprehensive Income

a. Analysis of Interest Revenue

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Category of Interest Bearing Assets				
Cash - Deposit	844,715	797,212	844,715	797,212
Receivables from Financial Institutions	11,240,002	13,085,300	11,239,668	13,084,889
Loans and Advances	59,761,156	61,935,128	59,761,156	61,935,128
Total	71,845,873	75,817,640	71,845,539	75,817,229

b. Analysis of Interest Expense

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Category of Interest Bearing Liabilities				
Member Deposits	26,988,866	30,349,333	26,988,866	30,349,333
Overdraft	57,689	56,146	57,689	56,146
Other Financial Liabilities	5,606,709	7,057,131	5,606,709	7,057,131
Total	32,653,264	37,462,610	32,653,264	37,462,610

3. Profit from Ordinary Activities - Revenue

	Consolidated		Police Bank	
	2016	2015	2016	2015
	\$	\$	\$	\$
Dividend Revenue	491,513	620,497	1,208,313	1,228,497
Fee and Commission Revenue				
- Loan Fee Income	1,485,832	1,318,180	1,485,832	1,318,180
- Other Fee Income	2,322,908	2,228,806	2,322,908	2,228,806
- Insurance Commissions	2,985,456	2,440,838	2,985,456	2,440,838
- Other Commissions	3,507,627	3,611,820	663,547	676,834
Bad Debts Recovered	96,408	155,897	96,408	155,897
Total Revenue from Ordinary Activities	10,889,744	10,376,038	8,762,464	8,049,052
Other Revenue				
- Other	122,438	79,428	122,438	79,428
Total Revenue from Other Activities	122,438	79,428	122,438	79,428
Total Revenue from Ordinary and Other Activities	11,012,182	10,455,466	8,884,902	8,128,480

4. Profit from Ordinary Activities - Expenses

	Consolidated		Police Bank	
	2016	2015	2016	2015
	\$	\$	\$	\$
a. Loan Impairment Losses				
Increase/(decrease) in provision for impairment	(144,596)	(1,151,091)	(144,596)	(1,151,091)
Bad Debts written off directly against profit	472,803	527,033	472,803	527,033
Total Impairment Losses	328,207	(624,058)	328,207	(624,058)
b. Other Prescribed Expense Disclosures				
Auditor's Remuneration				
- Fees - Grant Thornton	150,650	173,617	150,650	173,617
- Other Services	13,750	22,527	13,750	22,527
	164,400	196,144	164,400	196,144
Profit/(loss) on disposal of assets				
- Property, Plant and Equipment	(26,415)	(16,288)	(26,415)	(16,288)
Net movement in provision for depreciation				
- Buildings	409,355	32,139	409,355	32,139
- Plant and Equipment	1,234,492	625,391	1,162,864	587,013
- Leasehold Improvements	244,002	176,135	244,002	176,135
- Intangible Assets	374,089	249,911	81,823	112,136
Other Expense				
- Supervision Levy	71,584	63,898	71,584	63,898
- Superannuation	1,687,452	1,634,662	1,564,486	1,525,935

5. Income Tax

a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the account as follows

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Prima facie tax payable on operating profit before income tax at 30%	3,750,697	4,981,404	3,683,948	4,769,632
Loan fee income and costs deferred	-	-	-	-
Non-deductable expenditure	49,156	71,360	48,194	47,372
First Home Savers account	(39,735)	43,048	(39,735)	43,048
Building depreciation	122,807	39,642	122,807	39,642
Amortisation	87,680	41,333	-	-
Imputation credit	155,355	157,950	155,355	157,950
Rebate on fully franked dividends	(302,810)	(344,099)	(517,850)	(526,499)
Deduction not allowed in accounting expenses	(11,326)	102,957	-	92,995
Over provision of Income Tax Previous Year	(139,439)	(200,258)	(139,643)	(177,517)
Total	3,672,385	4,893,337	3,313,076	4,446,623

b. Income tax expense comprises amounts

Provision for income tax attributable to current year taxable income	3,892,232	5,293,999	3,533,127	4,824,544
Movement in future income tax benefit	4,616	(118,105)	4,616	(118,105)
Movement in deferred tax liability	(85,024)	(82,299)	(85,024)	(82,299)
Over provision of Income Tax Previous Year	(139,439)	(200,258)	(139,643)	(177,517)
	3,672,385	4,893,337	3,313,076	4,446,623

c. Franking Credits

Franking credits held by the Bank after adjusting for franking credits that will arise from payment of income tax payable as at 30 June.

	63,196,009	58,312,551	63,122,333	58,290,516
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6. Cash and Liquid Assets

Cash on hand	3,024,612	3,231,770	2,630,408	2,570,656
Deposits at call	32,042,622	47,048,112	32,042,622	47,048,112
Cash at Bank	6,044,365	19,376,808	6,044,365	19,376,808
Security Deposits	51,440	91,231	51,440	91,231
	41,163,039	69,747,921	40,768,835	69,086,807

7. Receivables Due from other Financial Institutions

Deposits - Term	50,000,000	76,000,000	50,000,000	76,000,000
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8. Accrued Receivables

Interest Receivable on deposits with other Financial Institutions	1,404,142	1,871,154	1,404,142	1,871,154
Prepayments	525,567	639,795	525,567	639,795
Sundry Debtors	2,046,897	2,062,677	1,790,354	1,800,157
	3,976,606	4,573,626	3,720,063	4,311,106

9. Investment Securities

Bank Bills and Certificate of Deposits	104,083,144	136,530,202	104,083,144	136,530,202
Floating Rate Notes	93,206,668	78,644,817	93,206,668	78,644,817
Subordinated Debt	13,160,000	13,160,000	13,160,000	13,160,000
	210,449,812	228,335,019	210,449,812	228,335,019

Subordinated Debt - On 18th June 2012 the Bank invested in subordinated notes issued by National Australia Bank. The rights of the noteholders are subordinated to the claims of all creditors (including depositors) of National Australia Bank. The notes have quarterly interest payable in arrears with a fixed maturity date of 18th June 2022. National Australia Bank may redeem the notes on 18th June 2017 subject to prior approval from APRA.

On 9th November 2012 the Bank invested in a lower tier 2 capital instrument issued by the Australian Mutual Investment Trust (AMIT). AMIT has been created by the Australian Mutual Group (AMG) which consists of 17 Australian mutual authorised deposit-taking institutions. The notes have quarterly interest payable in arrears with a fixed maturity date of 9th November 2017.

Subordinated Debt - On 29th August 2014 the Bank invested in subordinated notes issued by ME Bank. The rights of the noteholders are subordinated to the claims of all creditors (including depositors) of ME Bank. The notes have quarterly interest payable in arrears with a fixed maturity date of 19th August 2024. ME Bank may redeem the notes on 29th August 2019 subject to prior approval from APRA.

10. Loans and Advances

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
a. Amount Due comprises				
Overdrafts and Revolving Credit Loans	42,140,230	44,242,384	42,140,230	44,242,384
Term Loans	1,170,215,385	1,065,326,964	1,170,215,385	1,065,326,964
	1,212,355,615	1,109,569,348	1,212,355,615	1,109,569,348
Less: Provision for Impaired Loans	413,294	557,890	413,294	557,890
Less: Unamortised Loan Origination Fees	1,602,078	1,437,849	1,602,078	1,437,849
Plus: Amortised Loan Transaction Costs	15,644	25,777	15,644	25,777
Net Loans and Advances	1,210,355,887	1,107,599,386	1,210,355,887	1,107,599,386
b. Credit Quality - Security held against Loans				
Secured by Mortgage	1,092,380,598	981,590,587	1,092,380,598	981,590,587
Secured Other	57,186,331	63,976,054	57,186,331	63,976,054
Unsecured	62,788,686	64,002,707	62,788,686	64,002,707
	1,212,355,615	1,109,569,348	1,212,355,615	1,109,569,348

It is not practicable to value all collateral as at the balance date is due to a variety of assets and conditions. A breakdown of the quantity of the residential mortgage security on a portfolio basis is as follows.

Security held as mortgage against real estate is on the basis of:

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
- loan to valuation ratio of less than 80%;	766,604,562	651,507,597	766,604,562	651,507,597
- loan to valuation ratio of more than 80% but mortgage insured; and	276,097,586	296,717,182	276,097,586	296,717,182
- loan to valuation ratio of more than 80% and not mortgage insured.	49,678,450	33,365,808	49,678,450	33,365,808
Total	1,092,380,598	981,590,587	1,092,380,598	981,590,587
c. Concentration of Loans				
(i) Individual loans which exceed 10% of Member Funds in aggregate amount to \$0.00 (2015 \$0.00)	-	-	-	-
(ii) Loans to Members are solely in Australia				
(iii) Loan purpose dissection:				
- Residential	926,080,116	830,091,267	926,080,116	830,091,267
- Personal	108,810,264	115,684,116	108,810,264	115,684,116
- Commercial*	166,304,321	151,499,320	166,304,321	151,499,320
- Lease	11,160,914	12,294,645	11,160,914	12,294,645
	1,212,355,615	1,109,569,348	1,212,355,615	1,109,569,348

*These are primarily loans to individuals secured by residential mortgage.

Geographical Areas

	Housing	Personal	Credit Card	Overdraft	Business	Total
Sydney City	216,656,679	15,557,417	4,827,573	1,742,009	692,205	239,475,883
Western Suburbs	208,906,363	13,049,041	3,648,303	931,415	-	226,535,122
Australian Capital Territory	159,589,507	12,190,713	3,116,789	1,164,726	-	176,061,735
Illawarra	138,057,898	8,624,643	2,399,393	674,106	-	149,756,040
Hunter Valley	106,197,951	7,125,468	1,589,837	716,985	-	115,630,241
Central Coast	62,446,613	6,707,062	1,210,959	477,377	-	70,842,011
NSW North Coast	69,134,915	6,343,069	1,132,877	969,598	-	77,580,459
Other States	44,916,870	3,327,748	1,262,500	984,179	-	50,491,297
NSW Country	36,958,828	4,150,312	825,061	344,729	-	42,278,930
Blue Mountains	31,693,819	1,632,634	518,978	151,524	-	33,996,955
South Coast	17,132,789	967,219	245,393	200,627	-	18,546,028

11. Provision on Impaired Loans

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
a. Total Provision Comprises				
Specific Provision	-	-	-	-
Collective Provision	413,294	557,890	413,294	557,890
	413,294	557,890	413,294	557,890
b. Movement in Specific Provision				
Balance at the beginning of the year	557,890	1,708,981	557,890	1,708,981
Add: Transfers from Income Statement	-	-	-	-
Deduct: Bad debts written off against provision	-	-	-	-
Deduct: Transfers to Income Statement	(144,596)	(1,151,091)	(144,596)	(1,151,091)
Balance at end of year	413,294	557,890	413,294	557,890
c. Impaired Loans Written Off				
Amount written off against the provision for impaired loans	-	-	-	-
Amounts written off directly to expense	472,803	527,033	472,803	527,033
Total bad debts	472,803	527,033	472,803	527,033
Bad debts recovered in the period	96,408	155,897	96,408	155,897
d. Impaired Loan Disclosures Impaired Loans as at Balance Date				
Balance of the impaired loans	693,366	747,676	693,366	747,676
Estimated value of loans which is secured	199,625	237,672	199,625	237,672
Loans with repayments Past Due but not impaired (due to security held)				
- Real estate	199,625	237,672	199,625	237,672
- Other	-	-	-	-

Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding.

	Carrying Value		Provision		Carrying Value		Provision	
	2016	2016	2015	2015	2015	2015		
	\$	\$	\$	\$	\$	\$		
Mortgage Insured	3,454,875	-	1,922,608	-				
30 up to 89 days in arrears	457,045	-	396,055	-				
90 to 181 days in arrears	438,581	175,432	182,572	73,029				
182 to 272 days in arrears	63,043	37,826	134,287	80,572				
273 to 364 days in arrears	604,535	72,586	629,269	214,838				
365 days and over in arrears	26,282	26,282	25,801	25,801				
Over limit facilities over 14 days	156,599	101,168	241,404	163,650				
Total	5,200,960	413,294	3,531,996	557,890				

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other types of assets. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions of those assets.

The Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report, the Bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan

contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in the past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

	2016			2015		
	Carrying Value	Value of impaired loans	Provision for impairment	Carrying Value	Value of impaired loans	Provision for impairment
Mortgages	4,434,550	199,625	79,850	3,341,327	237,672	190,137
Personal	609,830	370,371	209,436	479,380	299,275	162,495
Credit Cards	174,160	54,745	62,637	305,208	72,414	85,527
Overdrafts	418,220	68,625	61,371	354,031	138,315	119,731
Lease	30,710	-	-	15,028	-	-
Total to Natural Persons	5,667,470	693,366	413,294	4,494,974	747,676	557,890
Corporate Borrowers	-	-	-	-	-	-
Total	5,667,470	693,366	413,294	4,494,974	747,676	557,890

12(a). Available for Sale Investments

	Consolidated		Police Bank	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cuscal Member Shares (i)	4,121,772	3,441,904	4,121,772	3,441,904
PCU 2009-1 Trust (ii)	4,673,083	4,674,902	4,673,083	4,674,902
Total	8,794,855	8,116,806	8,794,855	8,116,806

(i) The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all Mutual Banks and Credit Unions. The Bank holds shares in Cuscal to enable the Bank to receive essential banking services. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded in the shares is low with few transactions in the past 3 years.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily. The bank purchased 825,570 Cuscal shares during the year with a purchase price of \$1.30 per share.

Management has determined that the cost value of shares is a reasonable approximation of fair value based on the likely value available on a sale and the low volume of trading in shares.

The Bank is not intending to dispose of these shares.

(ii) The PCU 2009-1 Trust is a special purpose vehicle that issues securities under an internal securitisation program for the purpose of contingency liquidity management. The Bank's risk management has been strengthened with the implementation of the 're-purchase' facility with the Reserve Bank of Australia providing greater access to funds and a higher level of security for the organisation.

12(b). Investment in Subsidiary

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Investment in Subsidiary	-	-	4,723,717	4,723,717
Total	-	-	4,723,717	4,723,717

13. Property, Plant and Equipment

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
a. Fixed assets				
Land at cost	5,589,354	548,301	5,589,354	548,301
Buildings at cost	12,376,510	1,285,560	12,376,510	1,285,560
Less: Provisions for depreciation	649,224	239,869	649,224	239,869
Total Buildings	11,727,286	1,045,691	11,727,286	1,045,691
Total Land and Buildings	17,316,640	1,593,992	17,316,640	1,593,992
Plant and Equipment at cost	10,603,902	28,498,379	10,445,730	28,340,207
Less: Provision for depreciation	5,138,176	6,786,606	5,031,157	6,718,063
Total Plant and Equipment	5,465,726	21,711,773	5,414,573	21,622,144
Capitalised leasehold improvements at cost	2,803,936	2,505,947	2,659,510	2,361,521
Less: Provision for depreciation	1,920,288	1,930,115	1,836,353	1,879,332
Total Capitalised Leasehold Improvements	883,648	575,832	823,157	482,189
Closing Balance 30 June	23,666,014	23,881,597	23,554,370	23,698,325

b. Land and Buildings - Valuation

During the 2015 financial year, the Bank acquired property at Pelican Street. Additions in respect of the building and fit out amounted to \$13,607,151 and were provisionally accounted for within Plant and Equipment as the full fit out had not been completed. On completion of the fit out within the current year, transfers were made between the Plant and Equipment and Property asset classes to conform with existing accounting policy and assessment of usefulness.

	2016			2015		
	Property	Plant & Equipment	Leasehold Improvements	Property	Plant & Equipment	Leasehold Improvements
Opening Balance 1 July	1,593,992	21,711,773	575,832	1,626,131	3,482,459	250,717
Add: Purchases in the year	16,132,003	(14,895,642)	551,818	-	18,957,393	511,405
Transfer	-	-	-	-	6,600	-
Less: Disposal of assets	-	(89,498)	-	-	(93,000)	-
Gain/(Loss) on Sale	-	(26,415)	-	-	(16,288)	(10,155)
Depreciation charge	(409,355)	(1,234,492)	(244,002)	(32,139)	(625,391)	(176,135)
Closing Balance 30 June	17,316,640	5,465,726	883,648	1,593,992	21,711,773	575,832

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
14. Intangible Assets				
Computer Software	715,954	701,015	715,954	701,015
Less: Provision for Amortisation	(625,419)	(610,201)	(625,419)	(610,201)
Acquired Customer Relationships	5,677,451	5,677,451	-	-
Less: Provision for Amortisation	(430,041)	(137,775)	-	-
	5,337,945	5,630,490	90,535	90,814
<i>Movement in the intangible asset balances during the year were:</i>				
Opening Balance 1 July	5,630,490	5,844,974	90,814	160,923
Add: Purchases in the year	101,020	49,304	101,020	49,304
Add: Adjustments	-	(6,600)	-	-
Less: Disposal of Assets	-	-	-	-
Less: Loss on sale	(19,476)	(7,277)	(19,476)	(7,277)
Amortisation charge	(374,089)	(249,911)	(81,823)	(112,136)
Closing Balance 30 June	5,337,945	5,630,490	90,535	90,814
15. Taxation Assets				
Deferred Tax Asset	1,388,122	1,383,506	1,388,122	1,383,506
<i>Deferred Tax Asset Comprises:</i>				
- Provision for Impairment	123,988	167,367	123,988	167,367
- Provision for Staff Entitlements	943,214	1,139,616	943,214	1,139,616
- Audit Accrual	38,736	34,217	38,736	34,217
- Other	282,184	42,306	282,184	42,306
	1,388,122	1,383,506	1,388,122	1,383,506
16. Amounts Payable to Other Financial Institutions				
Overdraft Secured (Note 32)	-	-	-	-
Negotiable Certificate of Deposit	71,357,159	113,062,019	71,357,159	113,062,019
Medium Term Note	35,000,000	20,000,000	35,000,000	20,000,000
	106,357,159	133,062,019	106,357,159	133,062,019
17. Deposits				
<i>Member Deposits:</i>				
- at call	624,082,770	562,619,806	624,082,770	562,619,806
- term	629,977,984	640,361,580	629,977,984	640,361,580
Withdrawable Shares	318,630	354,810	318,630	354,810
	1,254,379,384	1,203,336,196	1,254,379,384	1,203,336,196

Concentration of Risk

- (i) There are no Members who individually have deposits which represent 10% or more of the total liabilities of the Bank.
(ii) Details of classes of deposits which represent 10% or more of shareholders' equity of the Bank are set out below:

Industry Group

State Government	461,362,495	437,789,965	461,362,495	437,789,965
Federal Government	123,337,161	123,337,161	123,337,161	123,337,161

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Geographic Areas				
Australian Capital Territory	77,964,601	63,796,547	77,964,601	63,796,547
Central Coast Region	61,837,590	60,352,778	61,837,590	60,352,778
Hunter Region	93,027,067	88,369,174	93,027,067	88,369,174
Illawarra Region	42,784,269	39,600,369	42,784,269	39,600,369
North Coast Region	78,508,321	78,407,969	78,508,321	78,407,969
Sydney Coast Region	35,050,005	34,157,046	35,050,005	34,157,046
Sydney Metropolitan	764,321,850	720,000,623	764,321,850	720,000,623
18. Creditors and Borrowings				
Creditors and Accruals	11,376,242	9,624,405	11,230,697	9,432,529
Interest Payable on Deposits	4,939,505	6,665,908	4,939,505	6,665,908
	16,315,747	16,290,313	16,170,202	16,098,437
19. Provisions				
Employee Benefits	2,104,639	2,623,057	2,104,639	2,623,057
Leasehold Make Good	435,002	325,999	435,002	325,999
Other	13,069	24,100	13,069	24,100
	2,552,710	2,973,156	2,552,710	2,973,156
20. Taxation Liabilities/Assets				
Provisions for Income tax/(Receivable)	(795,356)	1,834,847	(918,820)	1,432,722
Provision for Deferred Income Tax	678,648	763,672	678,648	763,672
Other	161,072	175,970	49,085	68,207
Total Taxation Liabilities/(Assets)	44,364	2,774,489	(191,087)	2,264,601
Provision for Deferred Income Tax Comprises:				
- Prepayments;	14,798	39,292	14,798	39,292
- Tax allowances relating to Property, Plant & Equipment; and	590,744	651,274	590,744	651,274
- Tax allowances relating to Chelsea Wealth Management Pty Ltd.	73,106	73,106	73,106	73,106
	678,648	763,672	678,648	763,672
21. Capital Reserve Account				
Balance - 1 July	375,150	364,520	375,150	364,520
Transfer from retained earnings on share redemptions	36,910	10,630	36,910	10,630
Balance - 30 June	412,060	375,150	412,060	375,150

Share Redemption

The accounts represent the amount of redeemable Preference Shares redeemed by the Bank since 1 July 1999. The law requires that the redemption of the Shares be made out of profits. Since the value of the Shares have been paid to Members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriate to the account.

22. General Reserves For Credit Losses

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
General Reserves For Credit Losses	2,299,695	2,159,248	2,299,695	2,159,248
Balance 1 July	2,159,248	3,557,306	2,159,248	3,557,306
Add: Increase/Decrease transferred from retained earnings	140,447	(1,398,058)	140,447	(1,398,058)
Balance 30 June	2,299,695	2,159,248	2,299,695	2,159,248

23. Financial Risk Management Objectives and Policies

The Board has endorsed a Risk Management Strategy, which forms part of the overall Risk Management Framework. The framework has been developed to suit the risk profile of the Bank. The risks that the Bank are exposed to include, but are not limited to:

- Credit risk
- Operational risk
- Market risk
 - Interest rate risk
 - Equity investments
 - Liquidity risk

Governance: The Board has overall responsibility for the establishment and oversight of the risk management framework. The responsibility includes approval of the framework, setting risk appetite and strategy, driving appropriate risk culture, monitoring and managing within the stated appetite, aligning policies and process with appetite and ensure that sufficient resources are dedicated to risk management. The Board has established a governance framework that identifies, manages and reports on risk. This is implemented in the Bank as the three lines of defence model with business units and management as the first line (risk owners), risk and compliance as the second line (owns framework and monitors compliance) and internal audit and the respective Board subcommittees as the third line (oversight).

The Board has established separate Governance, Audit and Risk Committees each comprising independent Chairman and Directors to oversee governance activities, financial reporting and the effectiveness of audits, the management of risk and the program of compliance. The Committees are required to devote time and expertise to these areas over and above the time prescribed in scheduled Board meetings.

Governance Committee: The Committee assists the Board as follows:

- Board adherence to good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority in Australian Prudential Standards CPS 510 and CPS 520;

- Ensuring all Directors and responsible persons are of good character and meet the "Fit and Proper" requirements of the Fit and Proper Policy;
- Advise the Board in discharging its responsibilities in relation to board renewal;
- Review disputes from Members relating to the Bank's policies, procedures, systems or service delivery, which have been unable to be resolved by Management; and
- To assess the appropriateness of Director and Executive remuneration, and encourage behaviour that supports the long-term financial soundness of the Bank and the risk management framework.

This Committee holds at least two meetings each year.

Audit Committee: The primary objective of the Audit Committee is to assist the Board of Directors in discharging the Board's responsibilities as they relate to:

- Audit obligations (internal & external);
- Financial reporting practices;
- Accounting policies;
- Management and internal controls.

The Audit Committee:

- Oversees and appraise the quality of the audits conducted by both the Internal and External Auditors;
- Reviews and approve the Internal Audit Charter;
- Provides, through regular meetings, a forum for communication between the Board, Senior Management and both the Internal and External Auditors;
- Serves as an independent and objective party to review the financial information presented by management to Members and regulators; and
- Determines the adequacy of the Bank's administrative, operating and accounting controls.

The Committee holds at least 4 meetings each year and the Committee periodically monitors the annual internal audit plan.

Internal Audit: Internal Audit has responsibility for implementing



the controls testing and assessment as required by the Audit Committee.

Risk Committee: The primary objective of the Risk Committee is to discharge the Board’s responsibilities in overseeing the risk governance of Police Bank and to recommend the risk profile and risk management framework to the Board.

The Risk Committee assists the Board by providing an objective non-executive review of the effectiveness of the Risk Management Framework of the Bank by:

- Providing reasonable assurance to the Board that core business goals and objectives are being achieved in an effective and efficient manner, within an appropriate framework of governance, risk management and internal control;
- Monitoring the adequacy, integrity and effectiveness of the internal control environment and risk management process;
- Reviewing processes established by management to ensure that the requirements of APRA’s Prudential Standards and the Corporations Act are being adhered to;
- Monitoring compliance with all other internal, regulatory, prudential, legal, adopted industry and ethical requirements and standards; and
- Forming a view of the risk culture of Police Bank.

The Risk Committee holds at least 4 meetings each year and the Committee periodically monitors the annual risk plan. The Chairpersons of the Risk Committee and the Audit Committee shall, at their discretion, consult on any matters that relate to both Committees.

Compliance and Risk Managers: The primary responsibilities involve the development and implementation of controls to manage operational risk to balance the avoidance of financial loss and damage to the Bank’s reputation. The Bank has appointed a qualified Chief Risk Officer (CRO) to head the risk department and a General Manager of Compliance and Secretariat to oversee the compliance and company secretariat functions.

Nominations Committee: The Nominations Committee has been established to independently assess the fairness and propriety of all candidates (excluding incumbents who are re-standing) for the positions of Director. In addition, the Committee ensures that those persons interviewed for the position of Director have

the appropriate level of skills, experience and qualifications to be eligible to be a Director.

Key Risk Management Policies: The Bank has established key risk management policies and Committees to manage key risks as part of the overall Risk Management Framework, which include:

- Interest Rate Risk;
- Liquidity Management;
- Credit Risk Management; and
- Operations Risk Management including data risk management.

The Bank has undertaken the following strategies to minimise the risks arising from financial instruments:

Credit Committee – Credit Risk: This Management Committee meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Credit Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be in place regarding the authorisation of new loans.

The Credit Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria based decision-making process.

All large credit exposure facilities above policy limits are approved by the Credit Committee.

All loans are managed through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Committee monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated collections team, which reports to the Credit Committee, implements the Bank’s credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective

evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.

Asset and Liability Committee (ALCO) - Market Risk: This management Committee meets monthly and has responsibility for managing interest rate risk exposures, and ensuring that the Treasury and Finance functions adhere to exposure limits as outlined in the policies for interest rate and liquidity risk. The daily scrutiny of market risk reports is intended to prevent any exposure breaches prior to the monthly review by ALCO.

Pricing Committee: Management established an additional management Committee in July 2016 to meet at least monthly to review pricing strategies to manage interest rate risk.

a. Market Risk and Hedging Policy

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books. The Bank is exposed only to interest rate risk arising from changes in market interest rates. The management of market risk is the responsibility of ALCO.

(i) Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within their Treasury operations. Police Bank does not have a treasury operation and does not trade in financial instruments.

(ii) Interest Rate Risk in the Banking Book

The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured daily, reported to ALCO monthly, and to the Board via ALCO monthly.

In the banking book the most common risk the Bank faces arises from fixed rate assets and liabilities. This exposes the Bank to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 27. The table set out at Note 27 displays the period that each asset and liability will reprice as at the balance date.

(iii) Method of Managing Risk

The Bank manages its interest rate risk by the use of value at risk models (VAR) and interest rate sensitivity analysis, the detail and assumptions used are set out below. Risk Management is also facilitated by the introduction of a Pricing Committee in the 2017 financial year.

(iv) Hedging

To mitigate this risk the Bank has entered into pay fixed/receive floating interest rate swaps. The interest rate risk on fixed rate loans/assets are hedged by purchasing pay fixed/receive floating interest rate swaps. As at 30 June 2016 the notional principle amounts of the interest rate swap contracts is \$60,000,000. The fair value reflected in the Balance Sheet is (\$210,786). The valuation of the derivative transactions is based on mid-market

levels as of the close of business on 30 June 2016. The valuations are derived from proprietary models based upon well recognised financial principles and reasonable estimates about relevant future market conditions.

(v) Interest Rate Sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to monitor on a monthly basis the changes to maturity profiles within its deposit base and changes in the underlying portfolio mix to ensure that such changes will not have an unacceptable adverse outcome to the Bank. The policy of the Bank is to use derivatives to hedge against adverse consequences of interest rate risk. The Bank's exposure to interest rate risk is set out in Note 27 which details the contractual interest change profile.

Based on the calculations as at 30 June 2016, the calculated market value of equity (EVE) is \$173.9 million, with a sensitivity of \$841,228 to a 1% change in interest rates.

The Bank performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
 - the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
 - the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
 - savings deposits would not reprice in the event of a rate change;
 - fixed rate loans would all reprice to the new interest rate at the contracted date;
 - variable rate mortgage loans would all reprice to the new interest rate in one month;
 - personal loans would reprice at the contracted maturity date;
 - all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
 - the value and mix of call savings to term deposits will be unchanged; and
 - the value and mix of personal loans to mortgage loans will be unchanged.
- There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.

b. Liquidity Risk

Liquidity risk is the risk that the Bank may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or Member withdrawal demands. It is the policy of the Board of Directors that the Bank maintains adequate cash reserves and committed credit facilities so as to meet the Member withdrawal demands when requested.

The Bank manages liquidity risk by:

- continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.

The Bank has a longstanding arrangement with the industry liquidity support company Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank should it be necessary at short notice.

The Bank is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours.

APRA

	2016	2015
To total adjusted liabilities		
As at 30 June	16.63%	18.24%
Average for the year	17.83%	16.76%
Minimum during the year	16.63%	15.68%
To total Member deposits		
As at 30 June	20.75%	23.12%

c. Credit Risk

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus undrawn facilities consisting of loans approved not advanced, redraw facilities, overdraft facilities, credit card limits and funds held in loans offset accounts. The risk of losses on loans is reduced through the nature and quality of security taken. All loans and facilities are within Australia with the majority held in NSW and ACT.

The Bank has a concentration in retail lending to Members who are predominantly employees in the NSW Police Force and the Australian Federal Police. This concentration is considered acceptable on the basis that the Bank was formed to service these Members, the industry is an essential and stable industry. Should Members leave this industry other private sector opportunities are available.

Credit risk is managed through a structured framework of systems and controls including:

- Documented credit risk – lending principles that are disseminated to all staff involved in the lending process;
- Documented policies;
- Documented processes for approving and managing lending based on delegations; and
- A series of management reports detailing industry, geographic, and Loan to Value Ratio (LVR) concentrations, along with monitoring non-performing lending.

Documented policies have been endorsed by the Board to ensure that loans are only made to Members who are capable of meeting loans repayments.

	2016			2015		
	Carrying Value	Off Balance Sheet	Maximum Exposure	Carrying Value	Off Balance Sheet	Maximum Exposure
Residential	926,080,116	59,363,694	985,443,810	830,091,267	45,496,354	875,587,621
Personal	90,724,108	2,071,431	92,795,539	98,379,643	524,158	98,903,801
Credit Cards	20,781,704	25,146,516	45,928,220	20,245,560	23,491,870	43,737,430
Overdrafts	8,465,366	22,043,654	30,509,020	9,353,558	22,813,042	32,166,600
Total to Natural Persons	1,046,051,294	108,625,295	1,154,676,589	958,070,028	92,325,424	1,050,395,452
Commercial	166,304,321	-	166,304,321	151,499,320	-	151,499,320
Total	1,212,355,615	108,625,295	1,320,980,910	1,109,569,348	92,325,424	1,201,894,772

d. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risk at the Bank relates mainly to legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the application of controls whilst avoiding procedures that inhibit innovation and creativity. These controls are managed through the application of policies, processes and systems to minimise the likelihood and impact of risk events.

The Bank has implemented an Operational Risk Management Framework that includes risk identification, measurement, evaluation, monitoring and reporting process where the board and senior management identify key risk in a 'top down' approach and business units identify risks in a 'bottom up' approach.

e. Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (Trading Book); and
- Operations risk.

The market risk component is not required as the Bank is not engaged in a Trading Book for financial instruments.

Capital Resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits;
- Realised reserves; and
- Asset revaluation reserves on property.

Additional Tier 1 capital

This is a new classification of capital and includes

- Preference share capital approved by APRA and which qualify as Tier 1 capital.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Capital in the Bank is made up as shown in chart below.

	2016
Tier 1	
Share capital	412,060
General reserve	41,597,000
Retained earnings	131,259,751
Asset revaluations reserves on property	268,875
Less prescribed deductions	23,910,079
Net tier 1 capital	149,627,607
Tier 2	
Reserve for credit losses	2,299,695
Net Tier 2 capital	2,299,695
Total Capital	151,927,302

The Bank is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2016	2015	2014	2013	2012
Basel III	Basel III	Basel III	Basel III	Basel II
18.87%	18.53%	18.72%	18.47%	19.23%

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

To manage the Bank's capital, the Bank reviews the ratio monthly and monitors movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14.5%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Based on this approach, the Bank's operational risk requirement is as follows:

- Operational Risk Regulatory Capital \$6,901,151

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below:

Internal Capital Adequacy Management

The Bank manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

In relation to the operational risks, the major measurements for additional capital are recognised by the monitoring and stress testing for:

1. Asset impairment - the impact of economic and employment factors on the loan losses, and/or recovery of investments.
2. Property value decline - the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets.
3. Interest rate risk - measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
4. Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

24. Categories of Financial Instruments and Liabilities

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
The following information classifies the financial instruments into measurement classes				
Financial Assets - carried at amortised cost				
Cash	41,163,039	69,747,921	40,768,835	69,086,807
Receivables from Financial Institutions	50,000,000	76,000,000	50,000,000	76,000,000
Accrued Receivables	3,451,039	3,933,831	3,194,496	3,671,311
Investment Securities	210,449,812	228,335,019	210,449,812	228,335,019
Loans & Advances	1,210,355,887	1,107,599,386	1,210,355,887	1,107,599,386
Total Loans and Receivables	1,515,419,777	1,485,616,157	1,514,769,030	1,484,692,523
Available for Sale Investments carried at cost	8,794,855	8,116,806	8,794,855	8,116,806
Investment in Subsidiary	-	-	4,723,717	4,723,717
Fair Value of Derivatives	-	-	-	-
Total Financial Assets	1,524,214,632	1,493,732,963	1,528,287,602	1,497,533,046
Financial Liabilities carried at amortised cost				
Short Term Borrowings	106,357,159	133,062,019	106,357,159	133,062,019
Deposits from Members	1,254,060,754	1,202,981,386	1,254,060,754	1,202,981,386
Withdrawable Shares	318,631	354,810	318,630	354,810
Creditors and Borrowings	16,315,747	16,290,313	16,170,202	16,098,437
Total Carried at Amortised Cost	1,377,052,291	1,352,688,528	1,376,906,745	1,352,496,652
Fair Value of Derivatives	210,786	714,980	210,786	714,980
Total Financial Liabilities	1,377,263,076	1,353,403,508	1,377,117,531	1,353,211,632

25. Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on their contractual term, and in the case of loans, the repayment amount and frequency. The table on the next page shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the balance sheet.

2016

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
Assets						
Cash	41,163,039	41,163,039	-	-	-	41,163,039
Accrued Receivables	3,451,039	3,451,039	-	-	-	3,451,039
Receivables from Financial Institutions	50,000,000	40,318,600	10,152,022	-	-	50,470,622
Investment Securities	210,449,812	70,999,941	53,001,411	87,365,315	-	211,366,667
Loans and Advances	1,210,355,887	26,098,173	78,294,519	417,570,768	1,258,882,416	1,780,845,876
Available for Sale Investments	8,794,855	-	-	-	8,794,855	8,794,855
On Balance Sheet Financial Assets	1,524,214,632	182,030,792	141,447,952	504,936,083	1,267,677,271	2,096,092,098
Interest Rate Swaps	60,000,000	30,021,480	10,076,789	20,513,896	-	60,612,165
Total Financial Assets	1,584,214,632	212,052,272	151,524,741	525,449,979	1,267,677,271	2,156,704,263
Liabilities						
Creditors and Accruals	11,376,242	11,376,242	-	-	-	11,376,242
Creditors Interest Payable on Deposits	4,939,505	-	-	-	-	-
Deposits from Members - At Call	624,082,770	624,082,770	-	-	-	624,082,770
Deposits from Members - Fixed Term	629,977,984	408,405,786	134,268,173	102,781,835	-	645,455,794
Negotiable Certificate of Deposit	71,357,159	52,000,000	20,000,000	-	-	72,000,000
Medium Term Notes	35,000,000	-	-	35,000,000	-	35,000,000
Withdrawable Shares	318,630	318,630	-	-	-	318,630
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	1,377,052,290	1,096,183,428	154,268,173	137,781,835	-	1,388,233,436
Undrawn Loan Commitments	108,625,295	108,625,295	-	-	-	108,625,295
Interest Rate Swaps	60,000,000	30,032,784	10,107,740	20,552,968	-	60,693,492
Total Financial Liabilities	1,545,677,585	1,234,841,507	164,375,913	158,334,803	-	1,557,552,223

2015

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
Assets						
Cash	69,747,921	69,747,921	-	-	-	69,747,921
Accrued Receivables	3,933,831	3,933,831	-	-	-	3,933,831
Receivables from Financial Institutions	76,000,000	56,442,966	20,125,192	-	-	76,568,158
Investment Securities	228,335,019	95,000,000	43,000,000	91,804,820	-	229,804,820
Loans and Advances	1,107,599,386	25,399,197	76,197,591	406,387,152	1,136,881,066	1,644,865,006
Available for Sale Investments	8,116,806	-	-	-	8,116,806	8,116,806
On Balance Sheet Financial Assets	1,493,732,963	250,523,915	139,322,783	498,191,972	1,144,997,872	2,033,036,542
Interest Rate Swaps	80,000,000	-	-	81,662,864	-	81,662,864
Total Financial Assets	1,573,732,963	250,523,915	139,322,783	579,854,836	1,144,997,872	2,114,699,406
Liabilities						
Creditors and accruals	9,624,405	9,624,405	-	-	-	9,624,405
Creditors Interest Payable on Deposits	6,665,908	-	-	-	-	-
Deposits from Members - At Call	562,619,806	562,619,806	-	-	-	562,619,806
Deposits from Members - Fixed Term	640,361,580	390,746,835	158,716,604	86,684,197	150,581	636,298,217
Negotiable Certificate of Deposit	113,062,019	88,000,000	26,000,000	-	-	114,000,000
Medium Term Note	20,000,000	-	-	20,000,000	-	20,000,000
Withdrawable Shares	354,810	354,810	-	-	-	354,810
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	1,352,688,528	1,051,345,856	184,716,604	106,684,197	150,581	1,342,897,238
Undrawn Loan Commitments	92,325,424	92,325,424	-	-	-	92,325,424
Interest Rate Swaps	80,000,000	-	40,924,309	41,333,238	-	82,257,547
Total Financial Liabilities	1,525,013,952	1,143,671,280	225,640,913	148,017,435	150,581	1,517,480,209

26. Maturity Profile of Financial Assets and Liabilities

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by Members choosing to repay loans earlier. These advance repayments are at the discretion of the Members and not able to be reliably estimated.

2016	Within 12 Months	After 12 Months	Total
Assets			
Cash	41,163,039	-	41,163,039
Accrued receivables	3,451,039	-	3,451,039
Receivables from Financial Institutions	50,000,000	-	50,000,000
Investment Securities	123,084,497	87,365,315	210,449,812
Loans and Advances	46,808,553	1,163,547,334	1,210,355,887
Available for Sale Investments	-	8,794,855	8,794,855
On Balance Sheet Financial Assets	264,507,128	1,259,707,504	1,524,214,632
Interest Rate Swaps	40,000,000	20,000,000	60,000,000
Total Financial Assets	304,507,128	1,279,707,504	1,584,214,632
Liabilities			
Creditors and Accruals	11,376,242	-	11,376,242
Creditors Interest Payable on deposits	4,939,505	-	4,939,505
Deposits from Members - At Call	624,082,770	-	624,082,770
Deposits from Members - Fixed Term	528,647,879	101,330,106	629,977,985
Negotiable Certificate of Deposit	71,357,159	-	71,357,159
Medium Term Note	-	35,000,000	35,000,000
Withdrawable Shares	318,630	-	318,630
Borrowings	-	-	-
On Balance Sheet Financial Liabilities	1,240,722,185	136,330,106	1,377,052,291
Undrawn Loan Commitments	108,625,295	-	108,625,295
Interest Rate Swaps	40,000,000	20,000,000	60,000,000
Total Financial Liabilities	1,389,347,480	156,330,106	1,545,677,586

2015	Within 12 Months	After 12 Months	Total
Assets			
Cash	69,747,921	-	69,747,921
Accrued receivables	3,933,831	-	3,933,831
Receivables from Financial Institutions	76,000,000	-	76,000,000
Investment Securities	136,530,199	91,804,820	228,335,019
Loans and Advances	44,849,133	1,062,750,253	1,107,599,386
Available for Sale Investments	-	8,116,806	8,116,806
On Balance Sheet Financial Assets	331,061,084	1,162,671,879	1,493,732,963
Interest Rate Swaps	40,000,000	40,000,000	80,000,000
Total Financial Assets	371,061,084	1,202,671,879	1,573,732,963
Liabilities			
Creditors and Accruals	9,624,405	-	9,624,405
Creditors Interest Payable on deposits	6,665,908	-	6,665,908
Deposits from Members - At Call	562,619,806	-	562,619,806
Deposits from Members - Fixed Term	544,932,375	95,429,205	640,361,580
Negotiable Certificate of Deposit	113,062,019	-	113,062,019
Medium Term Note	-	20,000,000	20,000,000
Withdrawable Shares	354,810	-	354,810
Borrowings	-	-	-
On Balance Sheet Financial Liabilities	1,237,259,323	115,429,205	1,352,688,528
Undrawn Loan Commitments	92,325,424	-	92,325,424
Interest Rate Swaps	40,000,000	40,000,000	80,000,000
Total Financial Liabilities	1,369,584,747	155,429,205	1,525,013,952

27. Interest Rate Change Profile of Financial Assets and Liabilities

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits and Term Investments) or after adequate notice is given (Loans and Savings). The following table shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2016	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
Assets						
Cash	38,138,427	-	-	-	3,024,612	41,163,039
Accrued Receivables	-	-	-	-	3,451,039	3,451,039
Receivables from Financial Institutions	-	40,000,000	10,000,000	-	-	50,000,000
Investment Securities	-	175,910,828	34,538,984	-	-	210,449,812
Loans and Advances	784,591,451	21,137,970	127,558,988	277,067,478	-	1,210,355,887
Available for Sale Investments	-	-	-	-	8,794,855	8,794,855
On Balance Sheet Financial Assets	822,729,878	237,048,798	172,097,972	277,067,478	15,270,506	1,524,214,632
Interest Rate Swaps	-	60,000,000	-	-	-	60,000,000
Total Financial Assets	822,729,878	297,048,798	172,097,972	277,067,478	15,270,506	1,584,214,632
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	16,315,747	16,315,747
Deposits from Members - At Call	624,082,770	-	-	-	-	624,082,770
Deposits from Members - Fixed Term	-	370,367,792	158,280,087	101,330,106	-	629,977,985
Negotiable Certificate of Deposit	-	51,634,942	19,722,217	-	-	71,357,159
Medium Term Note	-	35,000,000	-	-	-	35,000,000
Withdrawable Shares	-	-	-	-	318,630	318,630
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	624,082,770	457,002,734	178,002,304	101,330,106	16,634,377	1,377,052,291
Undrawn Loan Commitments	108,625,295	-	-	-	-	108,625,295
Interest Rate Swaps	-	30,000,000	30,000,000	-	-	60,000,000
Total Financial Liabilities	732,708,065	487,002,734	208,002,304	101,330,106	16,634,377	1,545,677,586
2015						
	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
Assets						
Cash	66,516,151	-	-	-	3,231,770	69,747,921
Accrued Receivables	-	-	-	-	3,933,831	3,933,831
Receivables from Financial Institutions	-	56,000,000	20,000,000	-	-	76,000,000
Investment Securities	-	185,873,399	42,461,620	-	-	228,335,019
Loans and Advances	713,615,949	12,525,517	73,459,646	307,998,274	-	1,107,599,386
Available for Sale Investments	-	-	-	-	8,116,806	8,116,806
On Balance Sheet Financial Assets	780,132,100	254,398,916	135,921,266	307,998,274	15,282,407	1,493,732,963
Interest Rate Swaps	-	80,000,000	-	-	-	80,000,000
Total Financial Assets	780,132,100	334,398,916	135,921,266	307,998,274	15,282,407	1,573,732,963
Liabilities						
Creditors, Interest Payable on Deposits	-	-	-	-	16,290,313	16,290,313
Deposits from Members - At Call	562,619,806	-	-	-	-	562,619,806
Deposits from Members - Fixed Term	-	361,316,887	183,615,488	95,429,205	-	640,361,580
Negotiable Certificate of Deposit	-	87,411,335	25,650,684	-	-	113,062,019
Medium Term Note	-	20,000,000	-	-	-	20,000,000
Withdrawable Shares	-	-	-	-	354,810	354,810
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	562,619,806	468,728,222	209,266,172	95,429,205	16,645,123	1,352,688,528
Undrawn Loan Commitments	92,325,424	-	-	-	-	92,325,424
Interest Rate Swaps	-	-	40,000,000	40,000,000	-	80,000,000
Total Financial Liabilities	654,945,230	468,728,222	249,266,172	135,429,205	16,645,123	1,525,013,952

28. Net Fair Value of Financial Assets and Liabilities

Net Fair Value is an estimate of the present market value of each asset or liability and has been calculated to show the difference between the current and future value of funds at the present time. Where the assets/liabilities are short term in nature or reprice frequently, then the net fair value is stated at book value.

The information is only relevant to circumstances at Balance Date and will vary depending on the contractual rates applied to each asset and liability. No assets held are regularly traded by the Bank.

Assets	Receivables from other Financial Institutions		Loans & Advances (before Provision)	
	2016 \$	2015 \$	2016 \$	2015 \$
Net Fair Value	255,119,230	301,430,806	1,212,088,715	1,108,774,646
Book Value	260,449,811	304,335,019	1,212,355,615	1,109,569,348
Variance	(5,330,581)	(2,904,213)	(266,900)	(794,702)

Liabilities	Payable to other Financial Institutions		Member Deposits		Interest Rate Swaps	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
Net Fair Value	71,725,720	113,561,941	1,254,553,724	1,203,715,483	59,789,214	79,285,020
Book Value	71,357,159	113,062,019	1,254,379,384	1,203,336,196	60,000,000	80,000,000
Variance	368,561	499,922	174,340	379,287	(210,786)	(714,980)

29. Derivative Financial Instruments

The Bank is exposed to the financial risk of changes in interest rates to the extent of the repricing profile of the Bank's balance sheet. Derivative financial instruments are held for the purpose of managing existing or anticipated risk from the source.

The Bank applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk.

	2016		2015	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest Rate Swaps designated as cash flow hedges	60,000,000	59,789,214	80,000,000	79,285,020

30. Expenditure Commitments

a. Future Capital Commitments

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Within 1 year	1,028,333	661,597	1,028,333	661,597
1 to 2 years	978,333	150,000	978,333	150,000
3 to 5 years	2,568,333	150,000	2,568,333	150,000
over 5 years	1,298,137	-	1,298,137	-
	5,873,136	961,597	5,873,136	961,597

b. Future Lease Rental Commitments

Future lease rental commitments are \$1,840,222 (2015 \$1,152,077). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Within 1 year	619,075	546,184	619,075	546,184
1 to 2 years	597,579	264,778	597,579	264,778
2 to 5 years	623,568	341,115	623,568	341,115
over 5 years	-	-	-	-
	1,840,222	1,152,077	1,840,222	1,152,077

31. Financial Commitments

a. Loan Commitments

Loans approved but not funded as at 30 June 2016 total \$47,542,585 (2015 \$32,315,078).

b. Undrawn Loan Facilities

Loan facilities available to Members for Overdrafts, Credit Card and Redraw Loans are as follows:

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Total value of facilities approved	103,222,940	104,252,730	103,222,940	104,252,730
Less: Amount outstanding at balance day	42,140,230	44,242,384	42,140,230	44,242,384
Net undrawn value	61,082,710	60,010,346	61,082,710	60,010,346

These commitments are contingent on Members maintaining credit standards and on-going repayment terms on amounts drawn. Under the contracts, the Bank has the right to withdraw the facilities at any time without notice.

32. Standby Borrowing Facilities

The Bank has the following credit facilities with Cuscal:

Overdraft	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Approved Limit	12,000,000	12,000,000	12,000,000	12,000,000
Less: Amount drawn	-	-	-	-
Available to draw	12,000,000	12,000,000	12,000,000	12,000,000

Draw down of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of the Bank as security against loan and overdraft amounts drawn.

33. Contingent Liabilities

Liquidity Support Scheme

The Bank is a Member of CUFSS Ltd, a company established to provide financial support to Member Mutual ADIs in the event of a liquidity or capital problem arising. As a Member, the Bank is committed to maintaining an amount equivalent to 3.2% of total assets as deposits with Cuscal and/or a CUFSS approved Authorised Deposit-taking Institution (ADI). The maximum call for each Member ADI would be 3.2% of the Bank's total assets. The Bank has the opportunity under certain circumstances to draw on this scheme.

34. Disclosures on Key Management Personnel

a. Remuneration of Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly including any Director (whether Executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons have been taken to comprise the Directors and the 4 Members of the Executive Management responsible for the day to day financial and operational management of the Bank.

The aggregate compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	2016			2015		
	Directors \$	Other KMP \$	Total \$	Directors \$	Other KMP \$	Total \$
(a) short term employee benefits	521,321	2,572,029	3,085,850	482,745	1,552,054	2,034,799
(b) Post-employment benefits - Superannuation Contributions	67,579	132,500	200,079	61,434	132,500	193,934
(c) Other long-term benefits - net increases in Long Service leave provision	-	(202,045)	(202,045)	-	31,657	31,657
(d) Termination benefits	182,844	1,248,252	1,431,096	-	-	-
(e) Share-based Payment	-	-	-	-	-	-
Total	771,744	3,750,736	4,514,980	544,179	1,716,211	2,260,390

From 22 June 2016, the Bank has appointed Mr. Greg McKenna as an Executive director and a part-time Treasury consultant. Greg worked as a consultant for the Bank cumulatively for 3 days in FY16, and received a total of \$7.5k plus 10% GST consulting fee.

In the above table, remuneration shown as "short term benefits" means wages, salaries, paid annual leave and paid sick leave, bonuses, value of Fringe Benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Bank.

Note the AASB 124 standard does not specifically require the separation of the Directors and Executive remuneration.

This note should be read in conjunction with note 19 of the financial statements.

Other Transactions with Key Management Persons

The disclosures are made in accordance with AASB 124 and include disclosures relating to policy for lending to related parties and, in respect of related party transactions, the amount included in:

- (i) each of the loans and advances, deposits and acceptances and promissory notes;
- (ii) each of the principal types of income and interest expense;
- (iii) the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and
- (iv) irrevocable commitments and contingencies arising from off balance sheet items.

b. Loans to Directors and Other Key Management Persons

		Consolidated		Police Bank	
		2016	2015	2016	2015
		\$	\$	\$	\$
(i)	The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to:	1,292,987	1,260,974	1,292,987	1,260,974
(ii)	The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	48,000	77,000	48,000	77,000
	Less amounts drawn down and included in (i)	7,859	34,187	7,859	34,187
	Net balance available	40,141	42,813	40,141	42,813
(iii)	During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to:				
	Revolving Credit Facilities	80,787	175,669	80,787	175,669
	Personal Loans	-	-	-	-
	Term Loans	625,000	-	625,000	-
Total		705,787	175,669	705,787	175,669
(iv)	During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-	-	-
(v)	Interest and other revenue earned on Loans and Revolving Credit facilities to Key Management Personnel.	38,170	41,505	38,170	41,505

The Bank's policy for lending to Directors and Management is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Director's or other KMPs.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

Other transactions between related parties include deposits from Directors, and other KMP are:

Total value Term and Savings Deposits from KMP	2,451,328	1,235,727	2,395,175	1,235,727
Total Interest paid on Deposits to KMP	14,311	18,353	14,302	18,353

The Bank's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit.

c. Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family Members of Directors, and other KMP.

The Bank's policy for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which apply to Members.

There are no benefits paid or payable to the close family members of the Key Management Persons. There are no service contracts to which Key Management Persons or their close family members are an interested party.

35. Events Occurring after the Balance Date

There were no events that have occurred since 30 June 2016 that will have significant impact upon the Bank.

36. Superannuation Liabilities

If an employee does not nominate a fund of choice, the Bank contributes to one of two superannuation funds. One being the NGS Super which is an industry fund. The Bank has no interest in the Superannuation Fund (other than as a contributor to comply with Superannuation Guarantee Levy) and is not liable for the performance of the plan nor the obligations of the plan.

The other fund is a Corporate Master Trust which is administered by MLC Limited. It is a contribution accumulated type fund. The Bank has no legal obligation to cover any shortfall in the Fund's obligation to provide benefits to employees on retirement. In the event the Fund is terminated, Members are only entitled to the balance of their account within the fund. As at the date of the last annual review being 30 June 2016, the fund had reserves equal to Members accumulated balances.

The Bank is legally obligated to contribute to the Fund as per the Superannuation Guarantee Levy Act and for employees who have a contract of service. These obligations are enforceable. As at the date of this report there is:

1. No outstanding payments due by the Bank.
2. No former employee or any individual associated with a former employee or an entity of a former employee receiving or entitled to receive a benefit under the Corporate Master Trust.

37. Transfers of Financial Assets

The Bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

- (i) The repurchase obligation (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not derecognised as the Bank retains the benefits of the trust until such time as a drawing is required.
- (ii) The Integris securitisation trust where the Bank acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

a. Securitised loans retained on the balance sheet - Repurchase Obligation REPO Trust

The values of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are primarily variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

The REPO trust is a trust established by the Bank to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the Bank receives a Warrant certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Warrant is secured over residential mortgage-backed securities (RMBS).

The Bank has financed the loans and received the net gains or losses from the trust after trustee expenses. The Bank has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent

to the value of the Warrants received. The Bank retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Repo trust fails to meet the trust's criteria, the Bank is obliged to repurchase those loans and substitute equivalent qualifying loans into the trust.

	2016 \$	2015 \$
Loans and Receivables	82,159,052	110,399,304
Fair Value of associated liabilities	4,673,083	4,674,903

	2016 \$	2015 \$
Off Balance Sheet Financial Commitments	9,381,180	9,876,002
Notes Issued	-	57,731,250

b. Securitised loans not on the balance sheet - Derecognised in their entirety

The Integris securitisation trust is an independent securitisation vehicle established by the peak Bank body, Cuscal.

The Bank has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Bank also manages the loans portfolio on behalf of the trust. The Bank bears no risk exposure in respect of these loans. The Bank receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Bank. The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the Members.

The Bank does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

	2016 \$	2015 \$
Integris securitisation trust (bulk items only)	1,158,597	1,451,501
Net income received from the continuing involvement cumulatively	13,695	17,424

38. Notes to Cash Flow Statement Liabilities

a. Reconciliation of Cash

Cash includes cash on hand and deposits at call net of overdraft.

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Cash as at balance date comprises:				
Cash on Hand	9,120,417	22,699,809	8,726,213	22,038,695
Deposits at Call	32,042,622	47,048,112	32,042,622	47,048,112
Less: Overdraft with Cuscal	-	-	-	-
	41,163,039	69,747,921	40,768,835	69,086,807

b. Member deposits and shares are shown net of deposits and withdrawals.

c. The net cash from Operating Activities is reconciled to the Operating Profit and Extraordinary Item after Income Tax.

	Consolidated		Police Bank	
	2016 \$	2015 \$	2016 \$	2015 \$
Operating Profit after Income Tax	8,829,938	11,711,341	8,966,751	11,452,150
Add (Deduct):				
Bad Debts Written Off	472,803	527,033	472,803	527,033
Depreciation Expense	2,399,713	1,083,576	1,898,044	907,423
(Decrease)/Increase in Provision for Employee Entitlements	(518,418)	241,283	(518,418)	241,283
Accrued Expenses	(112,339)	2,465,314	71,767	2,443,182
Gain on Sale of Assets	45,892	33,720	45,892	33,720
Decrease (Increase) in Prepayments	114,228	225,450	114,228	225,450
Increase (Decrease) in Unearned Income	164,229	192,454	164,229	192,454
Amortised Loan Transaction Costs	10,133	35,394	10,133	35,394
Decrease (Increase) in Sundry Debtors	482,792	(514,509)	476,815	(495,032)
Increase (Decrease) in Deferred Taxes Payable	(89,640)	35,805	(89,640)	35,805
Provisions for Income Tax	(2,645,101)	841,431	(2,370,664)	570,385
Other Provisions	(46,624)	(1,617,698)	(46,624)	(1,387,698)
Dividend Accrued	-	-	-	-
	-	-	-	-
Net Cash from Revenue Activities	9,107,606	15,260,594	9,195,316	14,781,549

Compliance Statistics

a. Capital Adequacy

At all times the Bank must maintain a minimum of 8% capital adequacy ratio. The capital adequacy ratio is a measure of reserves, general provisions for doubtful debts less an amount equal to the future income tax benefit as a percentage of the risk weighted value of assets. The Bank's ratio as at balance date was 18.87% [2015 18.53%].

b. Liquidity

The Bank is required to maintain at all times liquid assets at a minimum level of 9% of its liability base in High Quality Liquid Assets. These percentages were exceeded for the whole year. In addition to liquid assets the Bank has in place confirmed standby lines available to it. The High Quality Liquid Asset Ratio as at balance date was 16.63% [2015 18.24%].

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