PoliceBank
The strength of community

# Annual Report 2020

Supporting our Police and community partners

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## How we've helped our communities

> We invested
>
> **9.66%**
>
> of our net profits in organisations that support our Members

# Chairman's Introduction

It is my pleasure to welcome you to the Annual Report.

The past financial year has been challenging but I am pleased to report that the work undertaken by your Board and the new management team has ensured that Police Bank is well positioned to thrive and continue to assist police and their families gain financial security. The comprehensive strategic restructure of our operations involved difficult but necessary changes to enable investment in technology to meet the needs of our Members in the 2020s and beyond.

It was a decision that embraced the future and the need to modernise so we can continue to serve the needs of our Members. The reality that we faced is that Members are making fewer branch visits and instead are adopting contactless, online, and app banking services at an exponential rate. Over the past 5 years, before the impact of COVID-19, we had seen a 40% to 60% decrease in transaction volumes at our branches.

Our plan was initiated before COVID and whilst the pandemic didn't influence our decisions, it accelerated the trends we saw emerging and reinforced the need for the changes we have made to our network.

We recognise that not all Members welcomed the need to close some unprofitable and underutilised branches and invest in technology. They were difficult decisions but were based solely on what is in the best interests of the Police Bank and its Members over the long-term. We have laid the foundations by modernising and strengthening to provide the police family with a bank that is fit for the modern economic and banking environment.

The restructure will consolidate our bank for the future. That means a focus on digitising our services so we can continue to support our long-standing Members while building a bank future Members will want to join. In this way after 56 years, Police Bank can continue to look to a future where it will continue to serve those who serve and protect our community. And importantly, it will enable the bank to continue our support for Police Legacy and other police charitable causes as well as individual Members in need.



# Our purpose and mission

## Purpose:

To support and empower
the wellbeing of
the Police & Border Force Family,
and those who share
our strong community spirit.

## Mission:

We will apply
advanced banking technology
and financial expertise;

With unmatched community care
and understanding;

To give our community
the practical financial support,
empowerment and service
they deserve.

# Helping Members buy their first home

When the Federal Government announced the First Home Deposit Scheme, Police Bank jumped at the chance to help give our Members the opportunity to buy their first home.

We are proud to be one of the first financial institutions to be a part of the scheme, having delivered more affordable mortgage options to many first home buyers who previously may not have been able to buy their first home, providing them with a step-up into the housing market.

Through our partnership with the National Housing Finance and Investment Corporation (NHFIC), eligible Members benefit from our being able to buy their first home with as little as a 5% deposit, without the need to spend thousands of dollars on lenders mortgage insurance premiums.

**Funded**

**$22,149,031.99**



# Helping our Members through COVID-19

The current COVID-19 global pandemic is challenging for all of us. Though that challenge is different depending on who you are, what you do for a living, and where you are situated in life.

Of course, the pandemic poses unique challenges for our membership who are on the front lines across the nation – the women and men of the NSW Police Force, Australian Federal Police, Tasmanian Police, and Border Force who have been keeping our community safe.

To support you during this uncertain time, the least we can do is work with you to ensure you don't need to worry about your financial wellbeing. That's what we are here for.

Members in hardship have been granted mortgage relief and repayment honeymoons, we increased the capacity in our contact centre to take increased call volumes, and our branches and mobile bankers have been as flexible as possible to meet your needs wherever possible.

As a committed community-focused bank, we've always been there for our Members through the good times and the challenging times. It's what we've been doing for nearly 60 years and will continue to do.

Here's a snapshot of just a few things we've done to support our Members through the COVID-19 pandemic:

- Introduced our lowest ever rate with a three year fixed loan for Owner-Occupier to help our Members have certainty in an uncertain economy.
- Continued to have our term-deposit rates in the top tier of our peer group.
- Supported Members impacted by COVID-19 with options to pause/defer repayments on all lending products; mortgages, personal loans, overdrafts, and credit cards for up to six months.

# Building a stronger bank during COVID-19

As January opened and talk of a virus in China surfaced, who could have thought that the impact of COVID-19 would be a real test of the resilience of the Australian and global banking systems and a test of the business continuity and technological platforms banks and the financial system rest on would have been in the offing.

At Police Bank, we'd built an infrastructure platform that made it essentially seamless to transfer the vast majority of our non-branch teams in Pelican Street and across the Bank into remote working routines.

We did this a little before the lockdowns in order to be ready for what seemed an inevitable shutdown in the economy and after we'd operationalised our Pandemic Plan. That was to ensure the safety of our teams and our guests.

That our mobile lenders had a record application and settlement volume during April and then June is testament to Police Bank having the strength to operate successfully in even the most trying environment. One of the more impressive confluences of technology and human commitment to our Members was the fact that our Contact Centre was among the teams who swiftly adapted to the new way of working from home answering Member calls. They've been able to continue to deliver the standards of service our Members have come to expect and deserve.

**Web chats received**

**1,273**

**Calls received**

**27,569**



# Superior Rates

Over the past year, we have simplified our pricing for Owner Occupier loans, making it clearer for our Members and making our rates even more accessible to our wider Membership.

As a result, our Goldrate Home Loan Owner Occupier Variable Interest Rates subsequently changed to align with these new tiers, with interest rates reducing by 1% over the financial year. This large decrease will help many Members own their homes and reach their financial freedom sooner.

Additionally, we improved the Goldrate Home Loan by enabling an Offset facility on our Principle & Interest and Variable home loans to give our Members more functionality and control over their loans.

Our Investment home loans saw us being awarded the *Money Magazine's* "Investment Lender of the Year" in their 2020 Consumer Finance Awards category. Our Investment Home Loans have a great combination of competitive interest rates and low fees which gave us the highest average product rankings from a customer-owned institution across the major property investment lending categories.

By simplifying our home loans and enhancing our products over the past financial year, we have helped our Members through what has been a difficult year and ensured that our Members' financial goals continue to be supported no matter how challenging their circumstances may be.

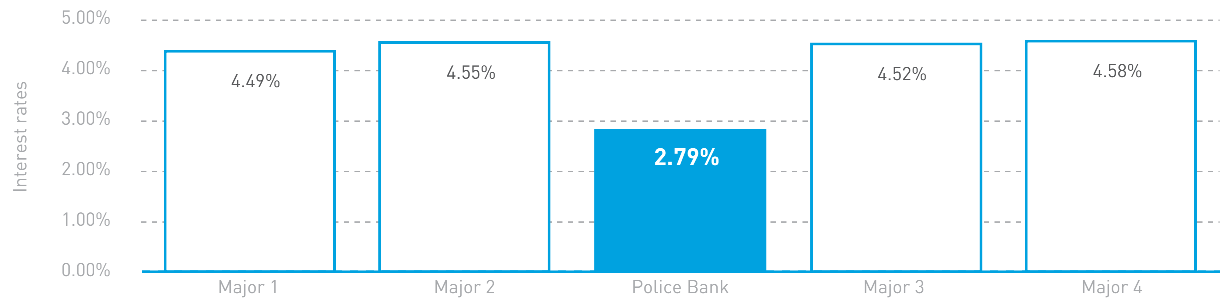



**Figure 1:** Police Bank vs Major Banks Home Loan Rates as at 30 June 2020
(Rates sourced from *Marketview by Mozo*, 31 August 2020)

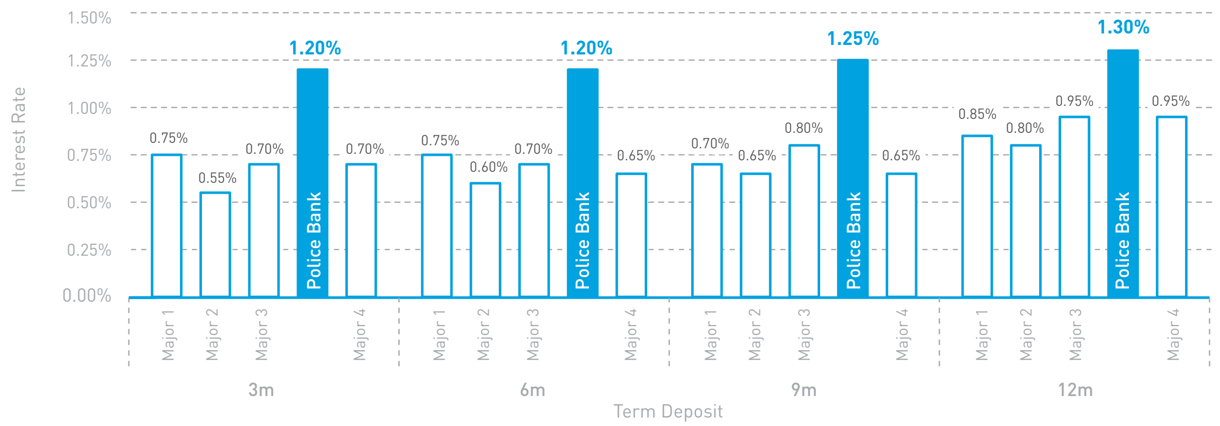



**Figure 2:** Police Bank vs Major Banks Term Deposit Rates as at 30 June 2020
(Rates sourced from *Marketview by Mozo*, 31 August 2020)

# Our roadmap

Why do we exist? It's a question we ask ourselves every day. The simple answer is that we're committing ourselves to reconnect with our communities and modernising our bank to ensure we continue to evolve.

That is, Police Bank exists to support and empower the well-being of the Police and Border Force families and to strengthen the bank for generations to come. So if we are going to do that and achieve our mission, we need to apply advanced banking technology and financial expertise, with unmatched community care and understanding, to give our community the practical financial support, empowerment and service they deserve.

By focusing on these priorities, we will deliver you with the following:

**Enhanced service**

We will offer our Members best in class service and tailored solutions to build stronger relationships with the financial wellbeing of our Members.

**Superior digital experience**

In recognition of changing Member interactions, the bank is focusing our resources to better align with existing Members' emerging needs and deliver superior digital experiences and banking solutions.

**Simpler products for every stage of life**

By simplifying our products we will make it easier for our Members to get right product(s) for them throughout their life time whether they're graduating the Academy or looking to retire. By building stronger relationships and becoming more engaged with our Members, our products will evolve to meet needs and want to suit every stage of your life.

**Strengthened support and empowerment**

Police Bank is building a resilient, upbeat and collaborative culture to align our people with our goals and strategies. Fuelled by our purpose to support and empower the wellbeing of the Police & Border Force Family and those who share our strong community spirit our people will continue to deliver and enhance the outcomes our Members deserve.

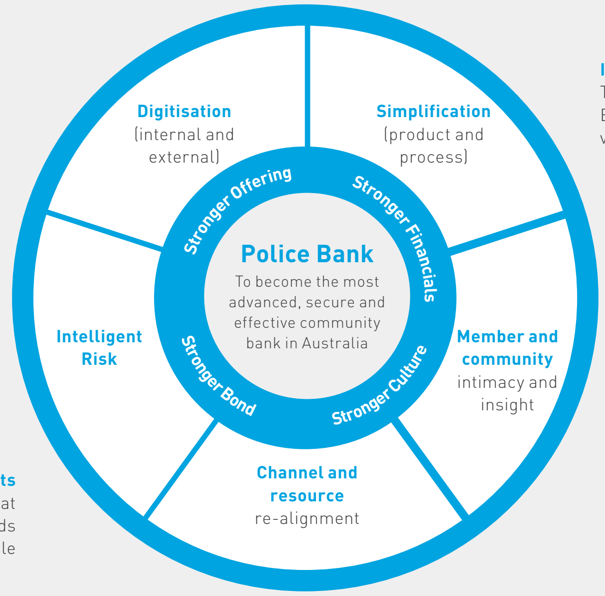
"Police Bank exists to support and empower the well-being of the Police and the Border Force families and to strengthen the bank for generations to come"

## Our Strategic Priorities

**Cultural Engagement**
To embed a culture of adaptive resilience

**Commercial acumen**
To deliver information to drive sustainable profitability

**Simple Products**
To deliver products that meet our customer needs throughout their lifecycle

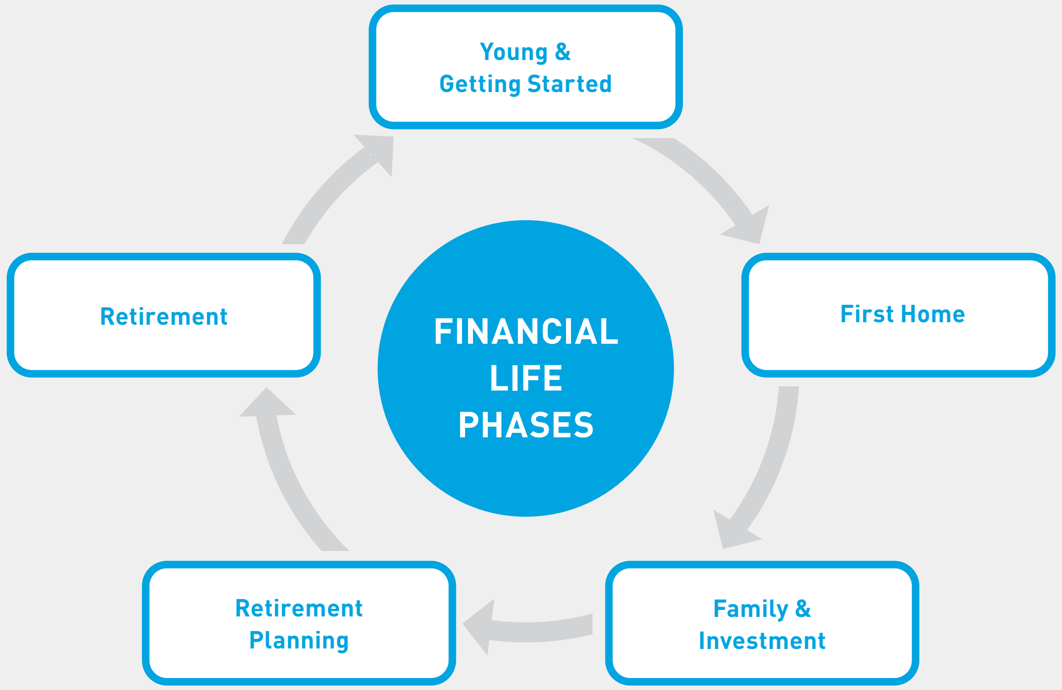



**Ignite our brand**
To increase Police Bank's Brand recognition and value perception

**Service culture**
To provide the tools, training and information to empower a service focussed culture

**Customer Experience**
To deliver digitised solutions and process improvements to our Members

## Simpler products to cater for every stage of your life



# How we've supported our Members

Calls from Members

**86,202**

"The Pays" Transactions

**17.7m**

by Members

Overseas Transactions

**178,581**

by Members

Fuel Transactions

**1,128,558**

by Members

Grocery & Food Transactions

**3,239,550**

by Members

# Chair's Letter

As I noted in my introduction to this year's annual report, it has been a year of significant change at Police Bank. We've undertaken a strategic reset which saw us close underperforming branches in Tasmania and New South Wales, and redeploy resources where Members are increasingly transacting with us – online, through the app, and using tap and go.

It's unashamedly a reach for the future in order to secure Police Bank as a sustainable standalone entity, which continues to serve the Police and Border Force communities well into the future. It means less face-to-face banking, but for the most part that's where our Members were going and it's certainly where banking has gone in a COVID world.

We've also refreshed the leadership of the Bank with former Chair Greg McKenna's appointment as CEO of the Bank following more than 100 other applicants vying for the position. He formally took the role in March 2020. Greg has both a deep understanding of banking and finance and where the industry is headed. Equally importantly though, Greg has a strong affinity with our Members have served on the Board between 2012 and 2018 before returning as Chair in 2019.

I know he is as committed to strengthening and modernising the bank as the Board is.

And on the Board, it has been a year of transition as well. We had Police Commissioner Mick Fuller and Sharon Waterhouse join our Board last September, while Liz Swain's appointment ended at the end of April this year.

I would like to thank Deputy Chair Raff Del Vecchio for his ongoing support, my fellow Directors on the Board, the Executive Leadership Team, and all people across the bank for their commitment to our Members during the past financial year.

On behalf of our Board and Management, I would like to thank you, our Members, for your ongoing loyalty and support. We will continue to give our community the practical financial support, empowerment, and service you deserve.

**Peter Remfrey**
Chair

### Contactless Transactions vs Branch Transactions

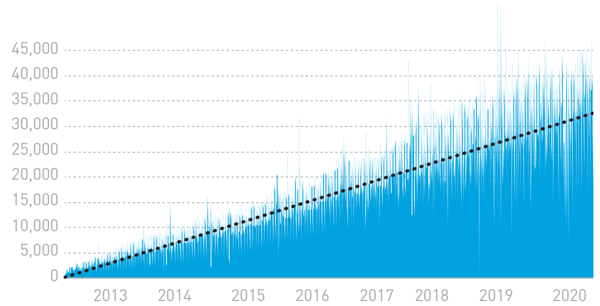



**Figure 1:** Contactless transactions 2012 – 2020

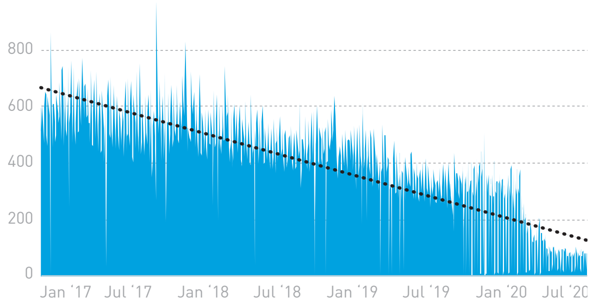



**Figure 2:** Branch transactions 2017 – 2020

# CEO's Letter

Our financial performance over the past year before the cost of reorganisation was an improvement on the previous year and our capital and liquidity positions remain very strong.

The last financial year has been an important one for the bank and it is a great honour to be able to write to you as the new CEO, having taken the reins in March 2020.

On the one hand, many Members may see FY20 as a tumultuous year of change, and in some ways it was. But more importantly for the bank, FY20 was the year when the Board embraced the future of banking and the need for a strategic reset.

The bank needed to get back to basics and reconnect with Members where they wanted to be served. The reality of that is increasingly through digital channels – card, online, our App, and digital wallets. Branch visits are tanking while remote access to our services is growing exponentially.

Indeed the fastest-growing cost base for the bank is Members accessing these remote payment methods; think tap-and-go, digital wallets and so on. Cost-wise it's equivalent to about 40 Members of staff up from 9 or 10 three years ago. So, it really is the case that we are changing to reflect how our Members are actually dealing with us in 2020 and how they'll increasingly deal with us in the future.

That embrace of the future stood the bank in good stead as COVID moved through our community. The bank moved to remote and work from home operations a little before the lock-downs and the transition was seamless.

Of course, our Branch staff continued to offer the quality – now socially distanced – care and service they always have and I thank them for continuing their commitment to the Bank, its Members, and community during this tough time. And, our mobile and relationship banking teams have continued to serve Members, though more remotely than not for a time. Indeed showing the embrace of technology our Members are evidencing during April's lockdown our Mobile bankers had a record month of serving Members with virtually no physical meeting – rather face to face over Zoom.

Our financial performance over the past year before the cost of reorganisation was an improvement on the previous year and our capital and liquidity positions remain very strong. Before re-org cost, net profit after tax was $3.2m, up 33.3% on the previous year with the result dominated by the second half of the financial year as the new strategy and leadership team were put in place.

Modern banking needs modern thinking and an agile approach with disciplined execution. The Bank's new Executive Leadership Team has been put in place to do just that.

Looking forward, we'll be investing in the Bank, its people, and technology, to ensure the execution of our vision to become the most advanced, secure, and effective community bank in Australia.

We'll continue to make substantial investments in developing our mobile and relationship banking models, we'll simplify our product offering to offer you financial solutions. And that means you'll see lifecycle solutions for the various stages of your career and life at the lowest possible cost or highest possible rate for savers.

It is a pleasure to serve this bank, its Members, and its vision. Our mission is to genuinely partner with you and your family to give you that feeling of financial wellbeing that is so important to navigating an uncertain future.

We're here to serve you, our Members. Me and all the Police Bank team.

**Greg McKenna**
CEO

# Board of Directors

## Peter Remfrey

CHAIR
AUDIT COMMITTEE
RISK COMMITTEE
GOVERNANCE AND REMUNERATION COMMITTEE

Peter Remfrey was appointed as the Chair of the Police Bank Board on 28 May 2020. Prior to his appointment he also acted as Chair of the Board and he was formerly the Deputy Chair of the Board from December 2018. Peter has been a director of the Board since 2016.

Peter was formerly the Secretary of the Police Association of NSW from 1994 to 2018 and the Branch Administrator of the NSW Police Branch of the Police Federation of Australia from 1988 until 2018.

Peter is a life member of the Police Association of NSW. He holds an Economics Degree (USyd) and studied Industrial Relations at Harvard University. He is also a nationally accredited mediator and a graduate of the Company Director's Course. Peter is currently the CEO of the Workers Health Centre and is a Trustee and member of the Finance and Governance Committee of Unions NSW.

## Raff Del Vecchio

DEPUTY CHAIR
GOVERNANCE & REMUNERATION COMMITTEE (CHAIR)
AUDIT COMMITTEE

Raff Del Vecchio was appointed as a Director in 2008. On the 28 May 2020, Raff was appointed as the Deputy Chair of the Police Bank Board.

Raff is currently the Assistant Secretary of the Police Association of NSW, a Director and Chair of the charity, *Educating the Future*. He was the former CEO of the Migration Institute of Australia, a former Director of Police Legacy NSW and the Police Superannuation Advisory Board and the former Chairman and President of the Eastern Suburbs Football Association.

He has previously worked in fraud identification, risk management and card operations for large financial institutions. He co -authored Financial Best Practice in Trade Unions for the ACTU.

Raff holds undergraduate and post qualifications in Governance, Criminology and Policing. He is a Fellow of the Australian Institute of Company Directors and attended the Corporate Governance program at Harvard Business School. Raff is a member and the Honorary Auditor of the Retired and Former Police Association.



## Col Dyson

DIRECTOR
RISK COMMITTEE (CHAIR)
AUDIT COMMITTEE

Col Dyson was appointed to the Police Bank Board in 2012 and was formerly the Deputy Chair of the Board. Col has had a distinguished career as a former Detective Superintendent of NSW Police, Commander of the NSWPF Fraud and Cybercrime squad. He is a recipient of the Australian Police Medal, National Medal 2nd clasp, NSW Police Medal 6th clasp, and the National Police Medal. Col holds qualifications in management, personnel management, and corporate governance, and has completed Strategic Leadership and Command Development programs with the NSW Police Force.

## Commissioner Michael Fuller

DIRECTOR
GOVERNANCE & REMUNERATION COMMITTEE

Commissioner Fuller has been a Director of Police Bank since 29 August 2019, and on the Governance and Remuneration Committee since 19 December 2019. He was appointed as the Commissioner of the NSW Police Force in 2017. He joined the NSW Police Force in 1987 and has held many senior roles including Assistant Commissioner, Commander Central Metropolitan Region; Assistant Commissioner, Commander Professional Standards; Assistant Commissioner, Commander Southern Region; and City Central, Local Area Commander.

He holds a Graduate Diploma of Executive Leadership, and Diploma of Applied Policing and diplomas and certificates in leadership and management.

# Board of Directors

### Deputy Commissioner David Hudson

DIRECTOR
GOVERNANCE & REMUNERATION COMMITTEE

Deputy Commissioner David Hudson has been a Director since November 2017. He is the Deputy Commissioner NSW Police and has a distinguished service record including as Deputy Commissioner for Investigations and Counter-Terrorism, Deputy Commissioner for Corporate Services, Commander of State Crime Command and Local Area Commander of Rosehill and Mt Druitt. David has been awarded the Australian Police Medal, Police National Service Medal, National Service Medal 2nd clasp, Police Medal 5th clasp and Commissioner's Commendation for Service. He is a Master of Public Policy and holds other qualifications in criminology and corporate governance.

### Greg McKenna

CHIEF EXECUTIVE OFFICER
CHAIR (29 JANUARY 2019 – 18 MARCH 2020)

Greg's profile is in 'Executive Leadership Team'.

See page 23.

### Robert Redfern

DIRECTOR
AUDIT COMMITTEE (CHAIR)
RISK COMMITTEE

Mr Robert Redfern has been a Director since 2013. He has had a distinguished career in policing having held positions as Local Area Commander; Commander State Audit; Commander Legal Services; and Commander Workforce Safety. Robert is also a solicitor of the Supreme Court of NSW and High Court of Australia, and a member of the Law Society of NSW and a Graduate of the Australian Institute of Company Directors. Robert has been awarded the Australian Police Medal, National Medal and the Commissioner's Commendation for Service, and holds qualifications in law and economics as well as a Master in Public Administration (Sydney) and a Master of Studies, Applied Criminology and Management (Cambridge).

### Liz Swain, AM

DIRECTOR (1 MAY 2018 – 30 APRIL 2020)
AUDIT COMMITTEE
RISK COMMITTEE

Liz Swain was a Director between 1 May 2018 and 30 April 2020. A metallurgist and leader (R&D and superintendent of large teams in operations, engineering, and maintenance), Liz worked at Tasmania's Rio Tinto Aluminium smelter in Bell Bay for 44 years. She has been recognised for her contribution as a role model for female engineers and contributions within the community in a range of services (Tasmanian Business Woman of the Year, Life Member of Diving Tasmania, and a Federal Government awarded diversity scholarship with the Australian Institute of Company Directors). She has tertiary qualifications in metallurgy, chemistry, business, leadership, an MBA and is a Graduate and Fellow of the Australian Institute of Company Directors. In 2018, Liz was admitted as a Member of the Order of Australia (AM) for her contribution to the mining industry and her community service work.

## Board of Directors

### Sharon Waterhouse

DIRECTOR
AUDIT COMMITTEE
RISK COMMITTEE

Sharon Waterhouse was appointed as a Director of Police Bank on 26 September 2019. Sharon has over 20 years' experience in the health and financial services industry across a diverse range of senior executive and non-executive director roles.

These include executive roles with St. George, Westpac, and Newcastle Permanent Building Society.

Currently, Sharon is CEO for Phoenix Health Fund, as well as an elected Director for Members Health Fund Alliance.

Sharon is a Former Chair of University of Newcastle Services, Former Chair of the Hunter Business Women's Network, and founding member and former Non-Executive Director with the Lending Industry Initiative (LIXI).

Sharon has won many prestigious awards including Innovation Award for LIXI (Lending Industry XML Initiative) best business enabler, FINSIA Williamson Scholarship – Australian Institute of Banking & Finance, and Australian MIS Innovation Award.

Sharon is a Fellow of the Australian Institute of Company Directors (FAICD) and is a Master of Arts (Business) and a Master of Business Administration. Sharon also holds a Postgraduate Diploma in Applied Finance and Investment and a Bachelor of Economics.

# Executive Leadership Team

### Greg McKenna

CHIEF EXECUTIVE OFFICER

Greg McKenna was appointed as Chief Executive Officer of Police Bank on 18 March 2020. Before his appointment, Greg had served as Chair of Police Bank from January 2019. He was also a Director between July 2012 and July 2018. Greg's career in banking and finance spans more than 30 years with a focus on financial markets and economics. His experience includes significant roles at NSW State Super, Westpac, NAB, Newcastle Permanent, and as an independent economic, trading, and banking consultant. Greg was a contributing editor to Business Insider Australia and holds a Masters of Applied Finance from Macquarie University, a Bachelor of Business (Banking and Finance) from Monash University, and is a graduate and member of the AICD.

### Brad Dixon

EXECUTIVE GENERAL MANAGER OPERATIONS

Brad joined the bank in 2016 as Head of Service Operations before being promoted to Executive General Manager Operations in March 2020. Brad has broad experience in all aspects of Banking and specialises in operational support, process improvement, and implementing regulatory and system changes.

Brad had held leadership roles across several financial institutions, including Head of Operations Australia and New Zealand – Rabobank; Head of ITOPS Control and Development – Rabobank; and Associate Director Treasury Operations – Rothschild Australia.

Brad has a Bachelor of Economics – University of Sydney

# Executive Leadership Team

## Denis Fuelling

EXECUTIVE GENERAL MANAGER PEOPLE

Denis joined the bank in 2019 following a career covering all facets of Human Resource Management and Sales.

Denis has broad experience in industrial and employee relations, transformation and change, learning & development, organisation-wide performance programs, sales and has established Work Health and Safety (WHS) policies and practices across a wide range of organisations.

Denis has held a number of senior and C- Suite roles in the retail, commonwealth government, higher education, not for profit and professional services sectors. He has extensive experience in sales and sales management gained in Asia.

Denis is a Master of Industrial Relations and Human Resource Management (University of Sydney), has a Graduate Diploma Tourism, Commerce (James Cook University), and a Bachelor of Education (Queensland University of Technology).

Denis also has Memberships with the Australian Human Resource Institute (AHRI) CAHRI, the Australian Institute of Company Directors MAICD, and is an Elected Life Member of the Beta Gamma Sigma Honours Society.

## Rayna Heckenberg

EXECUTIVE GENERAL MANAGER RISK

Rayna joined the bank in June 2020 and has over 25 years' in financial services management and executive performance in both domestic and international organisations. Her experience covers business line management, risk consulting, and risk management across the spectrum of financial services industries.

Rayna's extensive experience in leadership roles includes General Manager – Enterprise Risk Management AUSPAC and Compliance NZPAC – QBE Insurance; Head of Operational Risk, Financial Crime and Control – Westpac Banking Corporation; General Manager – Group Operational Risk and Regulatory Compliance – FATCA and CRS – Commonwealth Bank of Australia; General Manager – Business Banking Operational Risk – Bankwest; and General Manager – Technology Risk and Compliance – Commonwealth Bank of Australia.

Rayna has completed the Leadership Development Program – MIT Sloan School of Management and holds a Post Graduate Diploma in Applied Finance and Investment – FINSIA, a Diploma of Financial Risk Management Operational Risk – Commonwealth of Australia, as well as a Bachelor of Commerce (Economics and Finance) – UNSW.

Rayna is a Member of the Risk Management Association of Australia and a Fellow of FINSIA.

## Paul Klauzner

EXECUTIVE GENERAL MANAGER TECHNOLOGY

Paul Klauzner joined the bank in 2004 tasked with rebuilding the bank's technology function.

Subsequent to his appointment as Chief Information Officer, Paul continued to enhance the bank's infrastructure and security while establishing a skilled and experienced IT Team.

Paul was instrumental in transitioning from PCU to Police Bank and has since continued virtualising the environment, and enhancing the bank's business intelligence and reporting platforms. He also established the security operation at the bank.

With over 30 years' experience in IT in banking, finance, transport, and travel industry sectors, Paul has had an extensive career establishing and maintaining banking systems infrastructure and security for organisations such as GIO, TNT, hotelclub.com and Menulog.

Paul has a Degree in Automation of Technological Processes (Electrical Engineering).

## Andrew Rasby

EXECUTIVE GENERAL MANAGER RETAIL BANKING

Andrew joined the bank in 2018 as Chief Member Officer and has over 32 years' experience in retail banking, financial services, mortgage broking, commercial banking, and private banking. He also has responsibility for Chelsea Wealth Management. Andrew is a non-practicing CFP and member of the Financial Planning Association.

Andrew has held senior leadership roles in Bankwest, Aussie, CBA, and was General Manager at Yellow Brick Road before joining Police Bank.

Andrew was Acting CEO of Police Bank from 4 October 2019 until 17 March 2020.

Andrew has been on the Board of the Miracle Babies Foundation for the last seven years and is currently the Chairman. He has a Diploma of Financial Planning and a Diploma of Financial Services.

# Executive Leadership Team

**Dr. Leanne Ward**

CHIEF FINANCIAL OFFICER

Leanne joined Police Bank in February 2020 following over 20 years' experience in diverse senior executive roles. With strong academic foundations, Leanne has been recognised as an influential change leader, a major contributor to driving business performance, and successfully delivering commercial outcomes.

Leanne has held a number of senior leadership roles within major Australian corporates including General Manager Finance (CFO) – Big W, Woolworths Group; Chief Financial Officer – AMP Bank; Director, Group Business Performance – AMP; CFO – Bank of Melbourne and Head of Finance – St. George Bank.

Leanne is a graduate of the Australian Institute of Company Directors (GAICD) and a Fellow of the Australian Society of CPAs. She has a Doctor of Business Administration – Macquarie Graduate School of Management, a Master of Business Administration (Distinction) – University of New England, and a Bachelor of Business (Honours) – Charles Sturt University.



# 2020 Annual Financial Report

## Police Bank Limited & its Controlled Entities

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# Directors' Report

## Year ended 30 June 2020

The Directors of Police Bank Limited present their report, together with the financial statements of Police Bank Limited (the Bank) and the consolidated financial statements of the consolidated entity, being the Bank and its controlled entities, for the year ended 30 June 2020. The Consolidated Entity is a for profit entity.

The Bank is a member owned, mutual company, limited by shares and guarantee, which is incorporated and domiciled in Australia. The Bank's registered office and principal place of business is 25 Pelican Street, Surry Hills NSW 2010.

## Principal activities

The principal activities of the Bank during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

## Review of operations

The Consolidated Net Profit After Tax (NPAT) was $0.4 million for the year ended 30 June 2020. This result was impacted by a number of one-off items which arose due to the Board's decision to undertake a reset and reshaping of the strategic direction of the Bank that included a consolidation of its branch network, in order to better service the changing member needs in the long term. The material one-off items include:

- $2.2 million ($1.5 million after tax) of employee termination payments due to restructuring redundancies arising as part of the consolidation of the Branch network activities;
- $0.8 million ($0.6 million after tax) fixed assets written off in relation to surplus assets held following the restructure to a smaller footprint;
- $0.8 million ($0.6 million after tax) impairment loss on right-of-use property assets for 5 closed branches; and
- $0.1 million ($0.1 million after tax) of outplacement costs.

A reconciliation of statutory NPAT, as presented in the financial statements in accordance with Australian Accounting Standards, to underlying NPAT is as follows:

| | 2020<br>$m | 2019<br>$m |
|---|---|---|
| **Reconciliation** | | |
| **Net profit after tax per financial statements** | **0.4** | 2.4 |
| Employee termination payments | **1.5** | - |
| Fixed asset write-off | **0.6** | - |
| Impairment loss – closed branches | **0.6** | - |
| Outplacement costs | **0.1** | - |
| **Underlying net profit after tax** | **3.2** | 2.4 |

### Underlying net profit after tax

Underlying Net Profit After Tax (NPAT) increased 33.3% from $2.4 million in 2019 to $3.2 million for the year ended 30 June 2020.

The improvement in underlying NPAT result this year demonstrates the underlying strength of our business model and connection to our community. The delivery of this result has been achieved through a focus on member engagement, products that are aligned with our members needs and a renewed focus on cost controls. There has been reductions in the operating model cost base across our operations following the implementation of the Bank's new strategy.

This result has been achieved in spite of the impact of Covid-19 and the creation of a significant management overlay provision in anticipation of our members requiring support through Covid-19 related hardships. Due to the concentration of Police Bank's lending to the serving and retired police force, along with present and historically robust credit policies, the Bank has been less impacted by the economic impacts of COVID-19. Only 2.2% of loans had entered into a hardship deferral arrangement as at 30 June 2020. Each of these loans was individually assessed for potential credit losses as detailed in note 6. Separately, the effect of government restrictions on staff allowed the Bank the opportunity to test its business continuity plan, and business operations seamlessly transitioned to a working-from-home environment with no major operational interruption.

## Events subsequent to reporting date

APRA have allowed self-securitised assets to be used as collateral for repurchase transactions through the RBA's Term Funding Facility, but have required ADI's to increase their self-securitisation amount.

In relation to the Bank's internal securitisation (refer to note 5), on 13 August 2020 the Bank increased the balance of its Notes from $160.3m to $532.0m. At the date of increase the Bank met APRA's requirement for the self-securitisation amount (measured as the 'AAA' rated class A gross note balance) to be the greater of:

- 25% of total liabilities; or
- The sum of:
  - » 100% of total short-term wholesale liabilities;
  - » 10% of all other liabilities; and
  - » An amount sufficient to collateralise the RBA's Term Funding Facility.

On 27 August 2020, Management committed to a plan to sell 3 properties in Tasmania. An agent has been appointed and the properties are being actively marketed for sale.

Other than the above, the Directors are not aware of any matter or circumstances occurring since 30 June 2020 that has significantly or may significantly affect the operations of Police Bank, the results of those operations or the state of affairs of Police Bank in subsequent financial years.



## Future developments

Following the completion of the strategic reset of the Bank and throughout the challenging conditions of Covid-19, our underlying performance has remained strong. The Bank continues its focus in FY21 on implementing its strategy to provide superior member products and services in a financially responsible manner. This will be achieved through further investment into our platform and technology as an enabler to provide an improved banking experience for members with a focus on community focused products and services.

No matter, circumstance or likely development in operations 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.

## Directors

The Directors of the Bank at any time during or since the end of the financial year are:

**Peter Remfrey**
**Raff Del Vecchio**
**Colin Dyson**
**Michael Fuller** (appointed 29 August 2019)
**David Hudson**
**Greg McKenna** (retired 18 March 2020)
**Robert Redfern**
**Liz Swain** (retired 30 April 2020)
**Sharon Waterhouse** (appointed 26 September 2019)
**David Walton** (retired 1 August 2019)

### Attendance of directors at meetings

The number of Board meetings, including meetings of Board Committees, held during the financial year and the number of those meeting attended by each Director is as follows:

| | BOARD COMMITTEE | | BOARD AUDIT COMMITTEE | | BOARD RISK | | BOARD GOVERNANCE & REMUNERATION COMMITTEE | | BOARD NOMINATIONS COMMITTEE | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended | Meetings Attended | Eligible Attended |
| Greg McKenna | **14** | 15 | **-** | - | **-** | - | **-** | - | **2** | 2 |
| Peter Remfrey | **19** | 19 | **3** | 3 | **3** | 3 | **5** | 5 | **-** | - |
| Raff Del Vecchio | **19** | 19 | **3** | 3 | **-** | - | **5** | 5 | **-** | - |
| Colin Dyson | **19** | 19 | **3** | 3 | **3** | 3 | **-** | - | **-** | - |
| Robert Redfern | **19** | 19 | **3** | 3 | **3** | 3 | **-** | - | **-** | - |
| Michael Fuller | **15** | 16 | **-** | - | **-** | - | **2** | 2 | **-** | - |
| Sharon Waterhouse | **16** | 16 | **1** | 1 | **1** | 1 | **-** | - | **-** | - |
| Liz Swain | **17** | 17 | **2** | 3 | **2** | 3 | **-** | - | **-** | - |
| David Hudson | **19** | 19 | **-** | - | **-** | - | **5** | 5 | **-** | - |
| David Walton | **1** | 1 | **-** | - | **-** | - | **1** | 1 | **-** | - |

Michael Fuller granted LOA for one Board meeting.
Liz Swain granted LOA for one Board Audit Committee meeting and one Board Risk Committee meeting.
David Walton retired as Chair of the Board on 29 January 2019 and retired from the Board on 1 August 2019.
Greg McKenna appointed Chair of the Board on 29 January 2019 and retired from the Board on 18 March 2020, when appointed CEO.
Greg did not attend one Board meeting on 12 March 2020 as it was for his appointment as CEO.

## Other disclosures

### Dividends

Dividends paid or declared by the Consolidated Entity since the end of the previous financial year was $835,000 (2019: $920,000), paid to the shareholders of Chelsea Wealth Management Pty Limited of which $167,000 (2019: $184,000) was paid to an external non-controlling interest. Police Bank Limited is the majority shareholder of Chelsea Wealth Management Pty Limited. The dividend was 100% franked.

### Indemnification and insurance of directors, officers and auditor

Insurance premiums have been paid by the Bank to insure each of the Directors and Officers of the Bank against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Bank. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

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

### Non-audit services

During the year, the Bank changed auditors from Grant Thornton to Deloitte Touche Tohmatsu Australia. Details of the amounts paid to the auditor, which includes amounts paid for non-audit services and other assurance services, are set out in note 22 to the financial statements.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 33 and forms part of the Directors' Report.

### Rounding of amounts

The amounts contained in this report and in the financial statements have been rounded to the nearest hundred thousand dollars unless otherwise stated (where rounding is applicable) under the option available to the Bank under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Bank is an entity to which this instrument applies.

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

**Peter Remfrey**
Chair

Sydney
30 October 2020

**Raff Del Vecchio**
Deputy Chair

Sydney
30 October 2020



# Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Tel: +61 2 9322 7000

www.deloitte.com.au

The Board of Directors
Police Bank limited
25 Pelican Street
Surry Hills NSW 2010

30 October 2020

Dear Directors

**Auditor's Independence Declaration to Police Bank Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to those charged with governance of Police Bank Limited.

As lead audit partner for the audit of the financial report of Police Bank Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

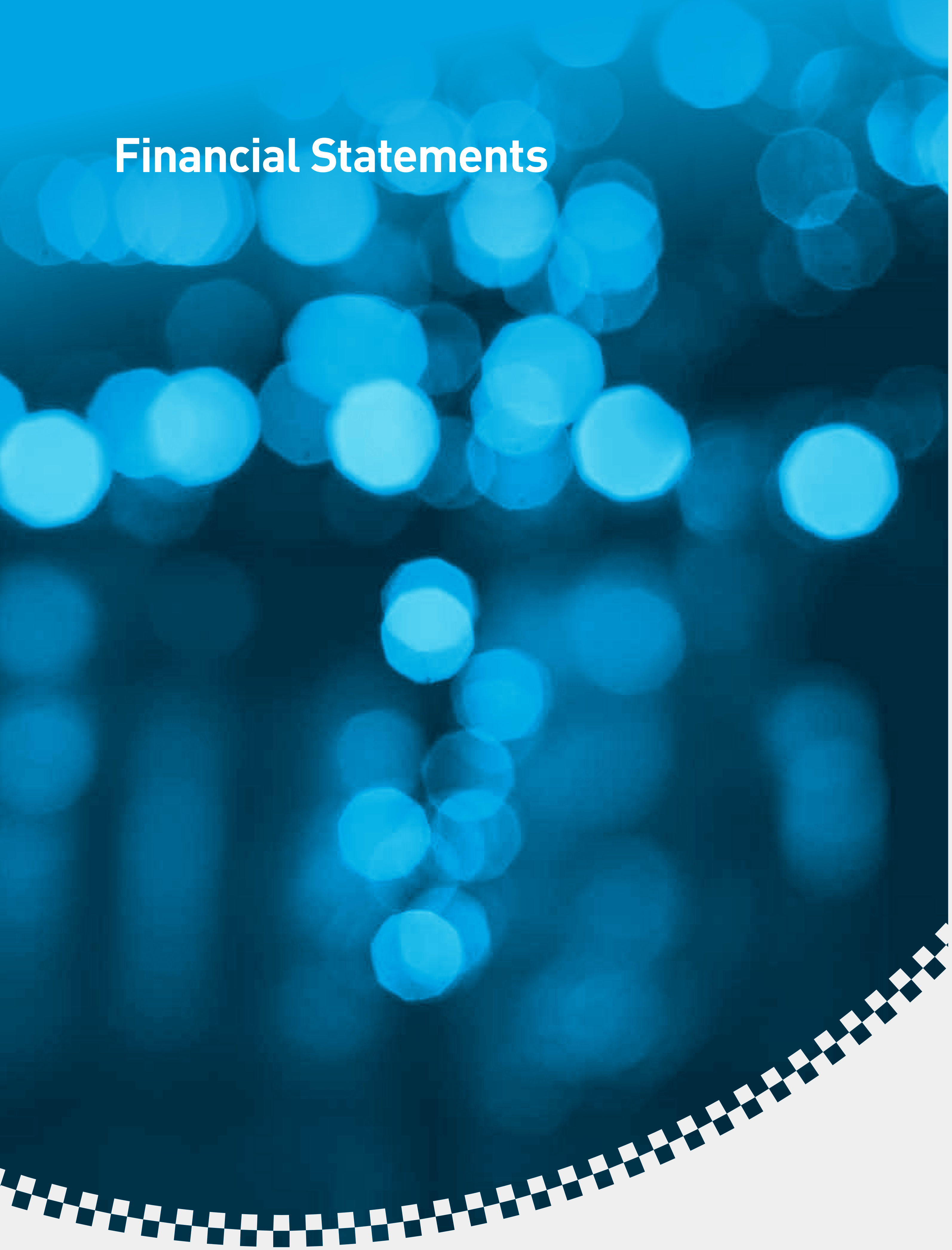
Yours faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

# Financial Statements



# Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2020

| | | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| | Note | **$m** | $m | **$m** | $m |
| Interest revenue | 8 | **71.7** | 80.5 | **71.7** | 80.5 |
| Interest expense | 9 | **25.7** | 33.8 | **25.6** | 33.8 |
| Net interest revenue | | **46.0** | 46.7 | **46.1** | 46.7 |
| Other revenue | 10 | **9.1** | 10.6 | **6.6** | 8.3 |
| **Total net operating revenue** | | **55.1** | 57.3 | **52.7** | 55.0 |
| Impairment losses on loans and advances | 6 | **2.9** | 1.3 | **2.9** | 1.3 |
| **General administration expenses**[1] | | | | | |
| Personnel expenses[2] | 11 | **28.4** | 28.0 | **26.8** | 26.6 |
| Transaction expenses | | **5.7** | 5.2 | **5.7** | 5.2 |
| IT expenses | | **4.1** | 4.7 | **4.1** | 4.7 |
| Occupancy expenses[3] | 11 | **1.0** | 2.5 | **1.0** | 2.3 |
| Customer marketing expenses | | **1.1** | 2.5 | **1.1** | 2.4 |
| Printing, postage and stationary | | **1.1** | 1.3 | **1.1** | 1.3 |
| Other administration expenses | 11 | **5.6** | 5.6 | **5.4** | 5.4 |
| Depreciation and amortisation | 11 | **3.6** | 1.9 | **2.9** | 1.6 |
| Impairment – right-of-use assets[4] | | **0.8** | - | **0.8** | - |
| **Total general administration expenses** | | **51.4** | 51.7 | **48.9** | 49.5 |
| **Profit before income tax** | | **0.8** | 4.3 | **0.9** | 4.2 |
| Income tax expense | 12 | **0.4** | 1.9 | **-** | 1.6 |
| **Net profit for the year** | | **0.4** | 2.4 | **0.9** | 2.6 |
| **Other comprehensive income** | | | | | |
| *Items that may be reclassified to profit or loss, net of tax* | | | | | |
| Movement in reserve for equity instruments FVOCI | | **1.2** | - | **1.2** | - |
| **Total other comprehensive income** | | **1.2** | **-** | **1.2** | **-** |
| **Total comprehensive income for the year** | | **1.6** | 2.4 | **2.1** | 2.6 |
| **Total comprehensive income attributable to:** | | | | | |
| Non-controlling interests | | **0.1** | 0.1 | **-** | - |
| Members of the parent entity | | **1.5** | 2.3 | **2.1** | 2.6 |

[1] During the year ended 30 June 2020, the Bank updated its presentation of general administration expenses. The prior year comparatives have been restated to conform to the new presentation.

[2] 2020 includes employee termination payments of $2.2 million.

[3] On 1 July 2019, the Bank applied AASB 16 *Leases* which has resulted in a change in treatment of rent expense with this cost now being recorded in depreciation and amortisation.

[4] Impairment loss due to closure of 5 branches.

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Statement of Financial Position

As at 30 June 2020

| | Note | CONSOLIDATED ENTITY 2020 $m | CONSOLIDATED ENTITY 2019 Restated[1] $m | POLICE BANK LIMITED 2020 $m | POLICE BANK LIMITED 2019 Restated[1] $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and liquid assets | 3 | **59.1** | 48.7 | **44.4** | 30.0 |
| Receivables | 17 | **3.5** | 3.0 | **3.5** | 6.9 |
| Current tax asset | | **0.4** | 0.9 | **0.4** | 0.9 |
| Other assets | | **2.3** | 1.6 | **2.3** | 1.6 |
| Investment securities | 4 | **364.3** | 302.6 | **364.3** | 302.6 |
| Loans and advances | 5 | **1,686.6** | 1,625.5 | **1,686.6** | 1,625.5 |
| Investment at FVOCI | 7 | **9.3** | 7.6 | **9.3** | 7.6 |
| Investment in subsidiaries | | **-** | - | **19.4** | 19.4 |
| Property, plant and equipment and right-of-use assets | 18 | **23.7** | 21.6 | **23.1** | 21.5 |
| Intangible assets | 19 | **5.0** | 5.0 | **0.9** | 0.3 |
| **Total assets** | | **2,154.2** | 2,016.5 | **2,154.2** | 2,016.3 |
| **Liabilities** | | | | | |
| Deposits | 1 | **1,789.6** | 1,690.6 | **1,789.6** | 1,690.6 |
| Borrowings | 2 | **139.8** | 103.9 | **139.8** | 103.9 |
| Creditors and other liabilities | 20 | **15.0** | 18.1 | **14.6** | 17.6 |
| Lease liabilities | | **4.9** | - | **4.3** | - |
| Net deferred tax liabilities | 12 | **0.3** | 0.6 | **0.3** | 0.6 |
| **Total liabilities** | | **1,949.6** | 1,813.2 | **1,948.6** | 1,812.7 |
| **Net assets** | | **204.6** | 203.3 | **205.6** | 203.6 |
| **Equity** | | | | | |
| Share capital | | **0.5** | 0.5 | **0.5** | 0.5 |
| Reserves | 16 | **61.4** | 59.1 | **61.4** | 59.1 |
| Retained earnings | | **141.9** | 142.8 | **143.7** | 144.0 |
| **Equity attributable to Police Bank Limited** | | **203.8** | 202.4 | **205.6** | 203.6 |
| Non-controlling interest | | **0.8** | 0.9 | **-** | - |
| **Total equity** | | **204.6** | 203.3 | **205.6** | 203.6 |

During the year ended 30 June 2020, the Bank updated its presentation of a number of items within the Balance Sheet. The prior year comparatives have been restated to conform to the new presentation.

[1] Refer to note 26 for information regarding the prior period restatements.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



# Statement of Changes in Equity

Year ended 30 June 2020

CONSOLIDATED ENTITY

| | SHARE CAPITAL $m | RESERVES $m | RETAINED EARNINGS $m | TOTAL $m | NON-CONTROLLING INTEREST $m | TOTAL EQUITY $m |
|---|---|---|---|---|---|---|
| **At 1 July 2018[1]** | 0.5 | 55.3 | 143.5 | 199.3 | 1.0 | 200.3 |
| Profit for the year | - | - | 2.4 | 2.4 | - | 2.4 |
| Changes on initial adoption of AASB9 | - | 2.6 | (1.8) | 0.8 | - | 0.8 |
| Profit attributable to non-controlling interest | - | - | (0.1) | (0.1) | 0.1 | - |
| Dividends paid | - | - | - | - | (0.2) | (0.2) |
| Transfer to general reserve | - | 1.2 | (1.2) | - | - | - |
| Redeemed capital | - | - | (0.1) | (0.1) | - | (0.1) |
| Other | - | - | 0.1 | 0.1 | - | 0.1 |
| **At 30 June 2019** | 0.5 | 59.1 | 142.8 | 202.4 | 0.9 | 203.3 |
| **At 1 July 2019** | **0.5** | **59.1** | **142.8** | **202.4** | **0.9** | **203.3** |
| Profit for the year | **-** | **-** | **0.4** | **0.4** | **-** | **0.4** |
| Other comprehensive income | **-** | **1.2** | **-** | **1.2** | **-** | **1.2** |
| Total comprehensive income | **-** | **1.2** | **0.4** | **1.6** | **-** | **1.6** |
| Profit attributable to non-controlling interest | **-** | **-** | **(0.1)** | **(0.1)** | **0.1** | **-** |
| Dividends paid | **-** | **-** | **-** | **-** | **(0.2)** | **(0.2)** |
| Transfer to general reserve | **-** | **1.2** | **(1.2)** | **-** | **-** | **-** |
| Other | **-** | **(0.1)** | **-** | **(0.1)** | **-** | **(0.1)** |
| **At 30 June 2020** | **0.5** | **61.4** | **141.9** | **203.8** | **0.8** | **204.6** |

POLICE BANK LIMITED

| | SHARE CAPITAL $m | RESERVES $m | RETAINED EARNINGS $m | TOTAL $m | NON-CONTROLLING INTEREST $m | TOTAL EQUITY $m |
|---|---|---|---|---|---|---|
| **At 1 July 2018** | 0.5 | 55.3 | 144.5 | 200.3 | - | 200.3 |
| Profit for the year | - | - | 2.6 | 2.6 | - | 2.6 |
| Changes on initial adoption of AASB9 | - | 2.6 | (1.8) | 0.8 | - | 0.8 |
| Transfer to general reserve | - | 1.2 | (1.2) | - | - | - |
| Redeemed capital | - | - | (0.1) | (0.1) | - | (0.1) |
| **At 30 June 2019** | 0.5 | 59.1 | 144.0 | 203.6 | - | 203.6 |
| **At 1 July 2019** | **0.5** | **59.1** | **144.0** | **203.6** | **-** | **203.6** |
| Profit for the year | **-** | **-** | **0.9** | **0.9** | **-** | **0.9** |
| Other comprehensive income | **-** | **1.2** | **-** | **1.2** | **-** | **1.2** |
| Total comprehensive income | **-** | **1.2** | **0.9** | **2.1** | **-** | **2.1** |
| Transfer to general reserve | **-** | **1.2** | **(1.2)** | **-** | **-** | **-** |
| Other | **-** | **(0.1)** | **-** | **(0.1)** | **-** | **(0.1)** |
| **At 30 June 2020** | **0.5** | **61.4** | **143.7** | **205.6** | **-** | **205.6** |

During the year ended 30 June 2020, the Bank updated its presentation of its Statement of Changes in Equity. The prior year comparatives have been restated to conform to the new presentation.

[1] Refer to note 26 for information regarding the prior period restatement.

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

# Statement of Cash Flows

Year ended 30 June 2020

| | Note | CONSOLIDATED ENTITY 2020 $m | CONSOLIDATED ENTITY 2019 Restated[1] $m | POLICE BANK LIMITED 2020 $m | POLICE BANK LIMITED 2019 Restated[1] $m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Interest received | | **72.0** | 80.1 | **75.9** | 81.1 |
| Other income received | | **7.9** | 11.4 | **4.7** | 8.4 |
| Dividends received | | **0.4** | 0.2 | **1.1** | 0.9 |
| Interest paid | | **(28.8)** | (33.2) | **(28.7)** | (33.2) |
| Payments to suppliers and employees | | **(46.3)** | (54.2) | **(44.3)** | (52.4) |
| Income tax paid | | **(0.7)** | (2.1) | **(0.4)** | (1.8) |
| Net increase in loans and advances | | **(64.0)** | (33.1) | **(64.0)** | (33.1) |
| Net increase in deposits | | **99.0** | 91.4 | **99.0** | 91.4 |
| Net decrease in member shares | | **-** | (0.1) | **-** | (0.1) |
| **Net cash inflows from operating activities** | 24 | **39.5** | 60.4 | **43.3** | 61.2 |
| **Cash flows from investing activities** | | | | | |
| Redemption of investment securities | | **721.4** | 607.7 | **721.4** | 607.7 |
| Proceeds from disposal of property, plant and equipment | | **-** | 1.7 | **-** | 1.7 |
| Purchase of investment securities | | **(783.2)** | (690.5) | **(783.2)** | (690.5) |
| Payments for property, plant and equipment | | **(0.3)** | (2.1) | **(0.3)** | (2.1) |
| Payments for intangible and other assets | | **(1.5)** | - | **(1.5)** | - |
| **Net cash outflows from investing activities** | | **(63.6)** | (83.2) | **(63.6)** | (83.2) |
| **Cash flows from financing activities** | | | | | |
| Net increase in borrowings | | **35.9** | 13.3 | **35.9** | 13.3 |
| Principal portion of lease payments | | **(1.2)** | - | **(1.2)** | - |
| Dividends paid | | **(0.2)** | (0.2) | **-** | - |
| **Net cash inflows from financing activities** | | **34.5** | 13.1 | **34.7** | 13.3 |
| Net increase/(decrease) in cash and liquid assets | | **10.4** | (9.7) | **14.4** | (8.7) |
| Cash and liquid assets at the beginning of the year | | **48.7** | 58.4 | **30.0** | 38.7 |
| **Cash and liquid assets at the end of the year** | 3 | **59.1** | 48.7 | **44.4** | 30.0 |

[1] The prior year comparatives have been restated for a reclassification between interest received and redemption of investment securities.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.



# Notes to the Financial Statements

Year ended 30 June 2020

These are the consolidated financial statements of Police Bank Limited and its controlled entities (the Consolidated Entity).

The notes to these financial statements have been organised into sections in order to help users find and understand the information they need to know.

The notes to the financial statements have been organised into the following sections:

**Notes 1 to 2 – Financial liabilities:** provides information on member deposits and borrowings which allows the Bank to fund its lending and investing activities.

**Notes 3 to 7 – Financial assets:** provides information on the Bank's lending and investment activities. Lending is the Bank's principal activity and having the ability to do so supports and empower the wellbeing of the Police and Border Force Family, and those who share our strong community spirit.

**Notes 8 to 12 – Financial performance:** provides details on the main contributors to the Bank's returns which is derived from the difference between interest earned on lending and investment assets and interest incurred on member deposits and wholesale debt raised to fund these assets.

**Notes 13 to 16 – Capital and risk management:** outlines how the Bank manages its capital structure and various financial risks.

**Notes 17 to 29 – Other disclosures:** provides information on other items that must be disclosed to comply with Australian Accounting Standards and other regulatory pronouncements.

## Key judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions regarding future events.

The following judgements and estimates have the potential to have a material impact on the financial statements:

| AREAS OF JUDGEMENTS AND ESTIMATES | UNDERLYING ASSUMPTIONS | NOTE |
|---|---|---|
| Loans and advances | Measurement of expected credit losses | 6 |
| Intangible assets | Impairment trigger and recoverable amounts | 19 |

# Financial liabilities

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument. Financial liabilities are derecognised when they are extinguished, discharged, cancelled or expire.

## 1. Deposits

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Call deposits | **1,054.9** | 886.2 | **1,054.9** | 886.2 |
| Term deposits | **734.4** | 804.1 | **734.4** | 804.1 |
| Withdrawable shares | **0.3** | 0.3 | **0.3** | 0.3 |
| **Total deposits** | **1,789.6** | 1,690.6 | **1,789.6** | 1,690.6 |

Deposits are initially recognised at fair value. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest rate method.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on deposits is calculated on an accruals basis. The amount of the accrual is shown as part of trade creditors and accruals.

## 2. Borrowings

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Negotiable Certificates of Deposit | **70.8** | 83.9 | **70.8** | 83.9 |
| Medium Term Notes | **20.0** | 20.0 | **20.0** | 20.0 |
| RBA Term Funding Facility | **49.0** | - | **49.0** | - |
| **Total borrowings** | **139.8** | 103.9 | **139.8** | 103.9 |

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 borrowings using the effective interest rate method.

Interest is accrued over the period it becomes due and is recorded as part of trade creditors and accruals.

As part of the RBA monetary policy response to the COVID-19 pandemic, a Term Funding Facility (TFF) was made available to banks under which the Bank qualified for a $49.0 million facility. Notes to the value of $58.0 million were pledged as collateral.



# Financial assets

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the financial instrument. 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.

## 3. Cash and liquid assets

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Cash on hand | **1.6** | 2.2 | **1.2** | 1.7 |
| Cash at bank | **13.4** | 6.9 | **13.1** | 2.7 |
| Deposits at call | **30.0** | 25.5 | **30.0** | 25.5 |
| Security deposits | **0.1** | 0.1 | **0.1** | 0.1 |
| Restricted cash | **14.0** | 14.0 | **-** | - |
| **Total cash and liquid assets** | **59.1** | 48.7 | **44.4** | 30.0 |

Refer to note 26 for information regarding the prior period restatements.

Cash and liquid assets are carried at amortised cost on the Statement of Financial Position. Restricted cash is cash held in the PCU 2009-1 Trust as collateral for the borrowing facility.

## 4. Investment securities

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Term deposits | **52.8** | 101.8 | **52.8** | 101.8 |
| Bank bills and certificates of deposit | **140.5** | 101.3 | **140.5** | 101.3 |
| Floating rate notes | **171.0** | 98.5 | **171.0** | 98.5 |
| Subordinated debt[1] | **-** | 1.0 | **-** | 1.0 |
| **Total investment securities** | **364.3** | 302.6 | **364.3** | 302.6 |

[1] On 29 August 2014, the Bank invested in subordinated notes issued by ME bank. The rights of the noteholders were subordinated to the claims of all creditors (including depositors) of ME Bank. The notes had quarterly interest payable in arrears with a maturity date of 29 August 2024. The subordinated debt was redeemed on 29 August 2019.

Investment securities are initially measured at fair value (adjusted for transaction costs). The Bank subsequently measures investment securities at amortised cost using the effective interest rate method. The Bank holds these financial assets in order to collect the contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal amount outstanding.

# 5. Loans and advances

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market and are facilities that the Bank provides directly to customers.

### Amount due comprises:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Overdrafts and revolving credit loans | **31.1** | 37.6 | **31.1** | 37.6 |
| Term loans | **1,662.5** | 1,592.4 | **1,662.5** | 1,592.4 |
| **Gross loans and advances** | **1,693.6** | 1,630.0 | **1,693.6** | 1,630.0 |
| Provision for impaired loans | **(5.0)** | (2.8) | **(5.0)** | (2.8) |
| Unamortised loan origination fees | **(2.0)** | (1.7) | **(2.0)** | (1.7) |
| **Net loans and advances** | **1,686.6** | 1,625.5 | **1,686.6** | 1,625.5 |

Loans and advances are initially recognised at fair value, plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for expected credit losses. Transaction costs which are direct and incremental to the establishment of the loan are initially deferred as part of the loan balance and are amortised over the estimated average life of the loan.

The Bank enters into securitisation transactions in which it transfers financial assets that are recognised on its balance sheet. When the Bank retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Bank's balance sheet, however if substantially all of the risks and rewards are transferred, the Bank derecognises the asset.

### Credit quality – security held against loans:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Secured by mortgage against real estate | **1,555.3** | 1,493.0 | **1,555.3** | 1,493.0 |
| Secured – other | **51.5** | 57.0 | **51.5** | 57.0 |
| Unsecured | **86.8** | 80.0 | **86.8** | 80.0 |
| **Total** | **1,693.6** | 1,630.0 | **1,693.6** | 1,630.0 |



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

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| **Security held as mortgage against real estate is on the basis of:** | | | | |
| Loan to valuation ratio of less than or equal to 80% | **1,220.9** | 1,147.3 | **1,220.9** | 1,147.3 |
| Loan to valuation ratio of more than 80% but mortgage insured | **303.2** | 316.2 | **303.2** | 316.2 |
| Loan to valuation ratio of more than 80% and not mortgage insured | **31.2** | 29.5 | **31.2** | 29.5 |
| **Total** | **1,555.3** | 1,493.0 | **1,555.3** | 1,493.0 |

### Concentration of loans by purpose:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Home loans[1] | **1,580.6** | 1,497.9 | **1,580.6** | 1,497.9 |
| Personal loans | **83.8** | 93.0 | **83.8** | 93.0 |
| Credit cards | **17.0** | 21.1 | **17.0** | 21.1 |
| Overdrafts | **6.1** | 8.5 | **6.1** | 8.5 |
| Finance leases | **4.9** | 8.0 | **4.9** | 8.0 |
| **Total to households** | **1,692.4** | 1,628.5 | **1,692.4** | 1,628.5 |
| Corporate borrowers[1] | **1.2** | 1.5 | **1.2** | 1.5 |
| **Total loans and advances** | **1,693.6** | 1,630.0 | **1,693.6** | 1,630.0 |

[1] The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to correctly classify amounts between home loans and corporate borrowers.

### Geographical concentration (excludes finance leases):

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| New South Wales | **1,255.0** | 1,227.9 | **1,255.0** | 1,227.9 |
| Australian Capital Territory | **270.3** | 232.1 | **270.3** | 232.1 |
| Tasmania | **91.2** | 85.5 | **91.2** | 85.5 |
| Other States | **72.2** | 76.5 | **72.2** | 76.5 |
| **Total** | **1,688.7** | 1,622.0 | **1,688.7** | 1,622.0 |

### Securitisation

Securitisation is the process of taking an illiquid asset, or group of assets, such as home loans, and transforming them into a liquid security. The Bank uses securitisation for funding and liquidity purposes. Details of each of the securitisations entered into by the Bank are as follows:

**(i.) Internal securitisation**

The Bank maintains a securitisation trust, the PCU 2009-1 Trust (the Trust), that issues notes that meet the Reserve Bank of Australia's criteria for borrowing funds via Repurchase Agreements for emergency liquidity requirements or funding through the Term Funding Facility (TFF). The Bank holds all notes issued by the Trust, manages the loans, and retains all residual benefits and costs of the portfolio.

As the Trust meets the definition of a controlled entity and Police Bank Limited has not transferred all of the risks and rewards to the Trust, the assigned loans are not derecognised in the financial statements of Police Bank Limited.

The value of loans which do not qualify for derecognition at 30 June 2020 was $160.3 million (2019: $214.5 million). The value of associated liabilities as at 30 June 2020 was $14.4 million (2019: $18.2 million).

**(ii.) Securitisation program**

In the past, the Bank conducted a loan securitisation program whereby home loans were sold as securities to an unrelated entity, Integris Securitisation Services Pty Ltd. As the contractual arrangements of the program met the criteria for transferring assets off the balance sheet, these assets were removed from the Bank's balance sheet. The Bank bears no risk exposure in respect of these loans. The Bank receives fee and commission income from securitised loans which is included in other revenue.

The Bank no longer uses this program. The balance of these securitised loans as at 30 June 2020 was nil (2019: $0.5 million).

### Loan modifications

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated loan is substantially different from the existing financial instrument. When the modification does not result in derecognition, a gain or loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income as the difference between the financial instrument's original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Where the modification results in derecognition, a newly recognised financial asset is assessed to determine whether it is required to be classified as purchased or originated credit-impaired financial assets.



## 6. Impairment of loans and advances

### Impairment losses on loans and advances

The following table shows the expenses incurred in the Statement of Profit or Loss and Other Comprehensive Income relating to the impairment of loans and advances.

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Impairment charge | 2.2 | 0.4 | 2.2 | 0.4 |
| Bad debts written off | 0.7 | 0.9 | 0.7 | 0.9 |
| **Impairment losses on loans and advances** | **2.9** | 1.3 | **2.9** | 1.3 |

The impairment charge derives from the application of AASB 9, as set out in the following section on Expected Credit Losses. Loans are written off when there is no reasonable expectation of recovery.

Bad debts written off are no longer subject to enforcement activity.

### Provision for impairment

The Expected Credit Loss (ECL) allowance at year end by class of asset is summarised in the following table.

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2020 | | | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2019 | | |
|---|---|---|---|---|---|---|
| | Gross carrying value | ECL allowance | Carrying value | Gross carrying value | ECL allowance | Carrying value |
| | $m | $m | $m | $m | $m | $m |
| Home loans[1] | 1,580.6 | 2.4 | 1,578.2 | 1,497.9 | 0.9 | 1,497.0 |
| Personal loans | 83.8 | 2.1 | 81.7 | 93.0 | 1.4 | 91.6 |
| Credit cards | 17.0 | 0.4 | 16.6 | 21.1 | 0.3 | 20.8 |
| Overdrafts | 6.1 | 0.1 | 6.0 | 8.5 | 0.2 | 8.3 |
| Finance leases | 4.9 | - | 4.9 | 8.0 | - | 8.0 |
| **Total to households** | **1,692.4** | **5.0** | **1,687.4** | 1,628.5 | 2.8 | 1,625.7 |
| Corporate borrowers[1] | 1.2 | - | 1.2 | 1.5 | - | 1.5 |
| **Total** | **1,693.6** | **5.0** | **1,688.6** | 1,630.0 | 2.8 | 1,627.2 |

[1] The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to correctly classify amounts between home loans and corporate borrowers.

Due to the nature of the loan portfolio there has been no material deterioration in credit risk. 99% of gross loans are in Stage 1 (2019: 99%).

An analysis of the Bank's credit risk exposure per class of financial asset and stage without reflecting the effects of any collateral or other credit enhancements is demonstrated in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2020 | | | | | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL $m | Stage 2 Lifetime ECL $m | Stage 3 Lifetime ECL $m | Specific provision[1] $m | Total $m | Stage 1 12 month ECL $m | Stage 2 Lifetime ECL $m | Stage 3 Lifetime ECL $m | Total $m |
| Home loans | 0.4 | 0.1 | 0.5 | 1.4 | 2.4 | 0.4 | 0.2 | 0.3 | 0.9 |
| Personal loans | 0.3 | 0.1 | 1.0 | 0.8 | 2.2 | 0.3 | 0.3 | 0.8 | 1.4 |
| Credit cards | 0.1 | - | 0.2 | - | 0.3 | 0.1 | - | 0.2 | 0.3 |
| Overdrafts | - | - | 0.1 | - | 0.1 | 0.1 | - | 0.1 | 0.2 |
| **Total to households** | 0.8 | 0.2 | 1.8 | 2.2 | 5.0 | 0.9 | 0.5 | 1.4 | 2.8 |
| Corporate borrowers | - | - | - | - | - | - | - | - | - |
| **Total** | 0.8 | 0.2 | 1.8 | 2.2 | 5.0 | 0.9 | 0.5 | 1.4 | 2.8 |

[1] The specific provision is for Covid-19 hardships.

The reconciliations from the opening to the closing balance of the allowance for impairment are shown in the following table.

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2020 | | | | | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 12 month ECL $m | Stage 2 Lifetime ECL $m | Stage 3 Lifetime ECL $m | Specific provision[1] $m | Total $m | Stage 1 12 month ECL $m | Stage 2 Lifetime ECL $m | Stage 3 Lifetime ECL $m | Total $m |
| At 1 July | 0.9 | 0.5 | 1.4 | - | 2.8 | 0.9 | 0.5 | 1.0 | 2.4 |
| Net movement due to change in credit risk | (0.1) | (0.3) | 0.4 | 2.2 | 2.2 | - | - | 0.4 | 0.4 |
| **At 30 June** | 0.8 | 0.2 | 1.8 | 2.2 | 5.0 | 0.9 | 0.5 | 1.4 | 2.8 |

[1] The specific provision is for Covid-19 hardships.



## Expected Credit Losses

Loans and advances are assessed at each reporting date to determine whether credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of a loan.

Exposures are assessed on an individual and collective basis.

*Individual basis*

Where sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows, the exposure is assessed on an individual basis.

*Collective basis*

Exposures are assessed on a collective basis by placing them into portfolios of loans with similar risk profiles. For purposes of calculating the impairment, it was determined that the most appropriate portfolio segmentation is by loan type i.e. home loans, personal loans, credit cards and overdrafts. The portfolios are subject to regular review to ensure that exposures are correctly categorised based upon their risk profile.

The Bank applies a three-stage approach to measuring expected credit losses for loans and advances with measurement basis and principles as summarised below.

| STAGE | MEASUREMENT BASIS | PRINCIPLE |
|---|---|---|
| Stage 1 | Financial instruments that are not credit-impaired on initial recognition are classified in this stage.<br>A 12-month collective provision is allocated for these financial instruments. | All balances plus 1-29 days past due |
| Stage 2 | Financial instruments that have deteriorated significantly in credit quality since origination are classified in this stage.<br>A lifetime collective provision is allocated for these financial instruments. | 30 to less than 90 days past due |
| Stage 3 | Financial instruments that have objective evidence of impairment are classified in this stage.<br>A lifetime collective provision is allocated for these financial instruments. | 90 or more days past due |

### *Calculation of ECLs*

The key inputs into the calculation of ECLs include the following variables:

» Probability of default (PD)
» Loss given default (LGD)
» Exposure at default (EAD)

These parameters are derived from statistical models combined with historical, current and forward looking information.

For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date. For home loans, PD is calculated using a roll rate model incorporating historical movements of accounts between arrears buckets over the observation period. For all other portfolio segments, PD is calculated based on a historical assessment.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD percentage applied considers the structure of the loan, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, Loan to Value Ratios (LVR) are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

EAD represents the expected exposure at default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations.

Where appropriate, in calculating the ECL, the discount rate applied is the effective interest rate as defined in AASB 9.

*Incorporation of forward-looking information*

The approach to determining the ECL includes forward-looking information which is primarily incorporated through the specific provision for Covid-19 hardships and through the PD and LGD rates applied in our models. The specific provision for Covid-19 hardships was applied in addition to the provision calculated under the ECL models, and our models incorporate an increase in PD ratios due to the future view of worsening economic conditions and an increase in the LGD ratios due to the expectation that housing prices will drop and impact Loan to Value (LVR) Ratios.

Whilst the ECL provision has increased as a result of these changes, the impact on the Bank of the Australian macroeconomic overlook remains low compared to the wider Australian banking industry as a result of the nature of our core member base and a robust current and historic credit policy. Our loan book remains heavily concentrated towards the serving or retired police force, the average LVR across the loan book is 52.8%, and the Bank applies lenders mortgage insurance across its higher-LVR loans; all of which results in a conservative credit risk profile.

The Bank considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. Periodically the Bank carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

### General reserve for credit losses

A general reserve for credit losses is also held as an additional allowance for impairment losses to meet current prudential requirements. The reserve is made as an allocation from retained earnings.

## 7. Investment at FVOCI

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Shares in Cuscal Limited | 9.3 | 7.6 | 9.3 | 7.6 |
| **Total investment at FVOCI** | **9.3** | 7.6 | **9.3** | 7.6 |

Refer to note 26 for information regarding the prior period restatements.

### Cuscal Limited

On adoption of AASB 9, the Bank made an irrevocable election for its investment in Cuscal shares to be measured at Fair Value through Other Comprehensive Income (FVOCI). This investment is initially measured at fair value including directly attributable transaction costs. Subsequent measurement is at fair value with any changes in fair value recognised in other comprehensive income and not transferred to the profit or loss.

Fair value is determined using a range of 'Level 3' inputs, as set out in note 14.

Dividends from this investment continue to be recorded as other income within the profit or loss unless the dividend clearly represents a return of capital.



# Financial performance

## 8. Interest revenue

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Cash deposits | - | 0.5 | - | 0.5 |
| Deposits with other financial institutions | 5.6 | 7.7 | 5.6 | 7.7 |
| Loans and advances | 66.1 | 72.3 | 66.1 | 72.3 |
| **Total interest revenue** | **71.7** | 80.5 | **71.7** | 80.5 |

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

For loans originated after the introduction of the Consumer Credit Code on 1 November 1996, interest revenue on loans and advances is calculated on the daily balance outstanding and is charged in arrears to a customer's account monthly. For loans funded before the introduction of the Consumer Credit Code, other than overdrafts, interest revenue is calculated 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.

Interest revenue is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues, using the effective interest rate method. Loan establishment fees and costs are also included in the effective interest rate method and are amortised over the average life of the loan.

## 9. Interest expense

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Member deposits | 24.3 | 31.0 | 24.3 | 31.0 |
| Borrowings | 1.2 | 2.8 | 1.2 | 2.8 |
| Lease liabilities | 0.2 | - | 0.1 | - |
| **Total interest expense** | **25.7** | 33.8 | **25.6** | 33.8 |

Interest payable on member deposits is calculated on the daily balance outstanding and is credited in arrears. Interest expense is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues, using the effective interest rate method.

Interest payable on borrowings is calculated on an accruals basis using the effective interest rate method.

## 10. Other revenue

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Loan fee income | **1.1** | 1.6 | **1.1** | 1.6 |
| Other fee income | **2.5** | 2.5 | **2.5** | 2.5 |
| Insurance commissions | **1.1** | 2.5 | **1.1** | 2.5 |
| Other commissions | **3.6** | 3.5 | **0.4** | 0.5 |
| Dividends | **0.4** | 0.2 | **1.1** | 0.9 |
| Bad debts recovered | **0.1** | 0.1 | **0.1** | 0.1 |
| Other | **0.3** | 0.2 | **0.3** | 0.2 |
| **Total other revenue** | **9.1** | 10.6 | **6.6** | 8.3 |

### Fee income

Fee income includes fees other than those that are integral to the lending arrangement whereby they are recognised as part of the effective interest rate method. Fee income primarily comprises of account transaction and monthly fees, processing fees, credit card fees and loan package and overdraft fees.

Fee income is either transaction based and therefore recognised when the performance obligation related to the transaction is fulfilled, or related to performance obligations carried out over a period of time and therefore recognised on a systematic basis over the life of the agreement as the services are provided.

### Commission income

Commission income which comprises commission on insurance, BPAY, foreign cash and international transactions is recognised when the performance obligation is satisfied.

### Dividends

Dividend income is recognised as income on the date the Bank's right to receive payments is established.



## 11. General administration expenses

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| **Personnel expenses** | | | | |
| Salary and salary related expenses | **26.7** | 26.0 | **25.2** | 24.8 |
| Other employment expenses | **1.7** | 2.0 | **1.6** | 1.8 |
| **Total personnel expenses** | **28.4** | 28.0 | **26.8** | 26.6 |
| **Occupancy expenses** | | | | |
| Operating lease rentals and outgoings | **0.1** | 1.4 | **0.1** | 1.2 |
| Other occupancy expenses | **0.9** | 1.1 | **0.9** | 1.1 |
| **Total occupancy expenses** | **1.0** | 2.5 | **1.0** | 2.3 |
| **Other administration expenses** | | | | |
| Professional fees | **1.6** | 1.0 | **1.6** | 0.9 |
| Sundry office expenses | **1.0** | 0.6 | **1.0** | 0.6 |
| Travel and entertainment | **0.4** | 0.7 | **0.4** | 0.7 |
| Telephone | **0.6** | 0.6 | **0.6** | 0.6 |
| Insurance | **0.5** | 0.4 | **0.5** | 0.4 |
| Other | **1.5** | 2.3 | **1.3** | 2.2 |
| **Total other administration expenses** | **5.6** | 5.6 | **5.4** | 5.4 |
| **Depreciation and amortisation** | | | | |
| Buildings | **0.3** | 0.5 | **0.3** | 0.5 |
| Plant and equipment | **0.5** | 0.4 | **0.5** | 0.4 |
| Leasehold improvements | **0.6** | 0.5 | **0.6** | 0.5 |
| Right-of-use property assets | **1.0** | - | **0.9** | - |
| Right-of-use motor vehicle assets | **0.2** | - | **0.2** | - |
| Software | **0.4** | 0.2 | **0.4** | 0.2 |
| Customer lists | **0.6** | 0.3 | **-** | - |
| **Total depreciation and amortisation** | **3.6** | 1.9 | **2.9** | 1.6 |

## 12. Taxation

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | **$m** | $m | **$m** | $m |
| Profit before income tax | **0.8** | 4.3 | **0.9** | 4.2 |
| Income tax at 30% | **0.2** | 1.3 | **0.3** | 1.3 |

Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:

| | | | | |
|---|---|---|---|---|
| Non-deductible expenses | **-** | 0.3 | **0.1** | 0.3 |
| Amortisation | **0.2** | 0.1 | **-** | - |
| Imputation credits | **0.1** | - | **0.1** | 0.1 |
| Rebate on fully franked dividends | **(0.2)** | (0.1) | **(0.5)** | (0.4) |
| Under provision of income tax | **0.1** | 0.3 | **-** | 0.3 |
| **Income tax expense** | **0.4** | 1.9 | **-** | 1.6 |

Income tax expense comprises:

| | | | | |
|---|---|---|---|---|
| Current income tax | **1.2** | 1.2 | **0.9** | 0.9 |
| Decrease/(increase) in deferred tax assets | **(0.6)** | (0.3) | **(0.6)** | (0.3) |
| (Decrease)/increase in deferred tax liabilities | **(0.3)** | 0.7 | **(0.3)** | 0.7 |
| Under provision of income tax | **0.1** | 0.3 | **-** | 0.3 |
| **Income tax expense** | **0.4** | 1.9 | **-** | 1.6 |

The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to correctly record the amounts between the line items which comprise the income tax expense balance.

| | | | | |
|---|---|---|---|---|
| **Franking credits** | **74.8** | 74.2 | **74.6** | 74.0 |

Franking credits held by the Bank are after adjusting for franking credits that will arise from the payment of income tax at the end of the financial year.

### Income tax expense

Income tax expense for the financial year is the tax payable on the current year's taxable income. This is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.



### Deferred income tax assets and liabilities

***Deferred tax assets***

The balance is comprised of temporary differences attributable to:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | **$m** | $m | **$m** | $m |
| Provision for impaired loans | **1.5** | 0.8 | **1.5** | 0.8 |
| Provision for employee entitlements | **0.7** | 1.1 | **0.7** | 1.1 |
| Lease impairment charge | **0.2** | - | **0.2** | - |
| Other | **0.2** | 0.1 | **0.2** | 0.1 |
| **Total deferred tax assets** | **2.6** | 2.0 | **2.6** | 2.0 |
| Set-off of DTAs and DTLs | **(2.6)** | (2.0) | **(2.6)** | (2.0) |
| **Net deferred tax assets** | **-** | - | **-** | - |

***Deferred tax liabilities***

The balance is comprised of temporary differences attributable to:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | **$m** | $m | **$m** | $m |
| Property, plant and equipment | **0.6** | 0.6 | **0.6** | 0.6 |
| Finance leases | **0.4** | 0.6 | **0.4** | 0.6 |
| Fair value investments | **1.6** | 1.1 | **1.6** | 1.1 |
| Other | **0.3** | 0.3 | **0.3** | 0.3 |
| **Total deferred tax liabilities** | **2.9** | 2.6 | **2.9** | 2.6 |
| Set-off of DTAs and DTLs | **(2.6)** | (2.0) | **(2.6)** | (2.0) |
| **Net deferred tax liabilities** | **0.3** | 0.6 | **0.3** | 0.6 |

***Movements***

| | | | | |
|---|---|---|---|---|
| Opening balance of net DTA/(DTL) | **(0.6)** | 0.9 | **(0.6)** | 0.9 |
| Recognised in profit or loss | **0.8** | (0.4) | **0.8** | (0.4) |
| Recognised in other comprehensive income | **(0.5)** | (1.1) | **(0.5)** | (1.1) |
| **Closing balance of net DTA/(DTL)** | **(0.3)** | (0.6) | **(0.3)** | (0.6) |

***Recognition***

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available to utilise them. The carrying amount of deferred income tax assets is reviewed and reduced to the extent that it is no longer probable that sufficient taxable profit will be available.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities that effect neither accounting profit nor taxable profit. Nor is it recognised for the differences relating to investments in a subsidiary if they will probably not reverse in the foreseeable future.

***Measurement***

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

### Tax relating to equity items

Income taxes relating to items recognised directly in equity are recognised in other comprehensive income, not in profit or loss.

# Capital and risk management

## 13. Financial risk management

### Overview

The risks that the Bank is exposed to include, but are not limited to:

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

This note presents information about the exposure to each of these risks and the objectives, policies and processes for measuring and managing risk and capital. Further quantitative disclosures are included throughout the notes to the financial statements.

### Governance and the risk management framework

The Board has overall responsibility for the establishment and oversight of the Bank's Enterprise Risk Management Framework (ERMF). This responsibility includes approval of the ERMF, setting risk appetite and strategy, driving appropriate risk culture, monitoring and managing within the stated appetite, aligning policies and processes with appetite, and ensuring that sufficient resources are dedicated to risk management. The Board has established a governance framework that identifies, manages and reports on risk. This manifests as a Three Lines Model with business units and management as the first line, risk management and compliance functions as the second line and internal audit, external audit and the respective Board subcommittees as the third line.

The Board has established a Risk Committee and an Audit Committee to assist the Board with its responsibilities in overseeing the ERMF.

The Risk Committee assists the Board 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 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 the Bank.

The Audit Committee assists the Board 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;
- overseeing the integrity and quality of the Bank's financial reports and statements, including financial information provided to regulators and members;
- monitoring the adequacy, integrity and effectiveness of the internal control environment and risk management process;
- monitoring the effectiveness of the audit functions;
- monitoring the effectiveness of the external audit functions; and
- reviewing the processes established by management to ensure the requirements of APRA's Prudential Standards and the Corporations Act are being adhered to.

In addition to the Risk and Audit Committees, the Bank has the following management committees for managing and reporting on risks:

- **Credit Committee:** 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 put in place regarding the authorisation of new loans.
- **Management Risk Committee:** This management committee meets monthly and assists the Chief Executive Officer (CEO) and the Executive Leadership team in fulfilling the responsibilities of the Bank's ERMF, including the strategies, policies, standards and systems established by the Board and its Committees to identify, assess, measure and manage the risks facing the Bank.
- **Asset and Liability Committee (ALCO):** This management committee meets monthly and has responsibility for managing interest rate risk exposure, 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.



### Credit Risk

The credit risk of a financial institution is the risk that members, financial institutions or other counterparties will be unable to meet their obligations to the institution resulting in financial loss. Credit risk arises principally from the Bank's loans and advances and investments, which are managed using the Board-approved credit risk management framework.

### Credit risk – lending

Carrying value is the value on the Statement of Financial Position. Maximum exposure is the value on the Statement of Financial Position plus "off balance sheet" undrawn facilities consisting of loans approved not advanced, redraw facilities, overdraft facilities, credit card limits and funds held in loan offset accounts. The Bank's maximum exposure is as follows:

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2020 | | | CONSOLIDATED ENTITY & POLICE BANK LIMITED 2019 | | |
|---|---|---|---|---|---|---|
| | Carrying value | Undrawn facilities | Maximum exposure | Carrying value | Undrawn facilities | Maximum exposure |
| | $m | $m | $m | $m | $m | $m |
| Home loans[1] | 1,580.6 | 75.7 | 1,656.3 | 1,497.9 | 68.9 | 1,566.8 |
| Personal loans | 83.8 | 0.7 | 84.5 | 93.0 | 0.5 | 93.5 |
| Credit cards | 17.0 | 30.2 | 47.2 | 21.1 | 28.5 | 49.6 |
| Overdrafts | 6.1 | 21.8 | 27.9 | 8.5 | 21.2 | 29.7 |
| Finance Leases | 4.9 | - | 4.9 | 8.0 | - | 8.0 |
| **Total to households** | **1,692.4** | **128.4** | **1,820.8** | 1,628.5 | 119.1 | 1,747.6 |
| Corporate borrowers[1] | 1.2 | - | 1.2 | 1.5 | - | 1.5 |
| **Total loans and advances** | **1,693.6** | **128.4** | **1,822.0** | 1,623.0 | 119.1 | 1,749.1 |

[1] The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to correctly classify amounts between home loans and corporate borrowers.

The risk of losses on loans is reduced through the nature and quality of security taken. Note 5 describes the nature of the security held against the loans at balance date.

As at 30 June 2020, only 2.2% of loans had entered into a Covid hardship arrangement and subsequent to year end, repayments have re-commenced.

All loans and facilities are within Australia. Geographical distribution is detailed in note 5.

The Bank has a concentration in retail lending to Members who are predominantly employees in the NSW Police Force, the Australian Federal Police and State of Tasmania. 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 the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

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 polices;
- 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.

#### *Collateral securing loans*

A sizeable portion of the loan book is secured against residential property in Australia. The Bank is therefore exposed to the risk of reduction of the recoverable amount should residential property valuations be subject to a decline.

Performance of the mortgage secured portfolio is managed and monitored against the proportion of loan balances in arrears.

## Credit risk – investing

The Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

| | CONSOLIDATED ENTITY 2020 | | | CONSOLIDATED ENTITY 2019 | | |
|---|---|---|---|---|---|---|
| | Carrying value $m | Past due value $m | Provision $m | Carrying value $m | Past due value $m | Provision $m |
| **Investments with:** | | | | | | |
| ADIs rated A-1+ to A-1 (short-term) | **65.4** | **-** | **-** | 94.4 | - | - |
| ADIs rated A-2+, P-2 or F-2 (short-term) | **71.9** | **-** | **-** | 58.8 | - | - |
| ADIs rated A-3 (short-term) | **5.0** | **-** | **-** | 5.0 | - | - |
| ADIs rated AA+ to AAA- (long-term) | **107.9** | **-** | **-** | 56.7 | - | - |
| ADIs rated A+ to A (long-term) | **54.5** | **-** | **-** | 33.3 | - | - |
| ADIs rated BBB+ to Baa2+ (long-term) | **108.0** | **-** | **-** | 69.8 | - | - |
| ADIs unrated | **9.0** | **-** | **-** | 31.0 | - | - |
| **Total** | **421.7** | **-** | **-** | 349.0 | - | - |

## Market Risk

Market risk is the risk that adverse changes in prices, foreign exchange rates, interest rates and credit spreads of financial instruments will negatively impact the income and value derived from holding such instruments.

The Bank's activities are centred around making loans, taking deposits and investing in liquid assets and other ADI term deposits in Australian Dollars. The Bank does not trade in the financial instruments it holds on its books.

The banking book has exposure to adverse changes to interest rates, which will negatively affect the Bank's profit in current and future periods derived from net interest income (interest earned less interest paid). This risk is known as Interest Rate Risk in the Banking Book (IRRBB).

The Bank does not conduct any proprietary trading activities (buying and selling securities for short-term capital gains) or operate any trading books that expose it to any other form of market risk.

Treasury manages Market Risk including IRRBB with oversight from ALCO.

### (i.) Interest Rate Risk

Interest rate risk is the risk of changes to 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. The Bank 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 in the Banking Book is measured daily, reported to ALCO monthly, and to the Board via ALCO monthly.

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



CONSOLIDATED ENTITY 2020

| | Floating rate $m | >1-3 months $m | >3-12 months $m | >1-5 years $m | Non-interest bearing $m | Total $m |
|---|---|---|---|---|---|---|
| Cash and liquid assets | **57.5** | **-** | **-** | **-** | **1.6** | **59.1** |
| Receivables | **-** | **-** | **-** | **-** | **3.5** | **3.5** |
| Investment securities | **-** | **352.4** | **11.9** | **-** | **-** | **364.3** |
| Loans and advances | **1,144.1** | **28.3** | **211.7** | **302.5** | **-** | **1,686.6** |
| Investment at FVOCI | **-** | **-** | **-** | **-** | **9.3** | **9.3** |
| **Total financial assets** | **1,201.6** | **380.7** | **223.6** | **302.5** | **14.4** | **2,122.8** |
| Creditors, interest payable on deposits | **-** | **-** | **-** | **-** | **12.5** | **12.5** |
| Deposits from members – at call | **1,054.9** | **-** | **-** | **-** | **-** | **1,054.9** |
| Deposits from members – fixed term | **-** | **125.0** | **427.6** | **181.8** | **-** | **734.4** |
| Negotiable Certificates of Deposit | **-** | **70.8** | **-** | **-** | **-** | **70.8** |
| Medium Term Notes | **-** | **20.0** | **-** | **-** | **-** | **20.0** |
| RBA Term Funding Facility | **-** | **-** | **-** | **49.0** | **-** | **49.0** |
| Withdrawable shares | **-** | **-** | **-** | **-** | **0.3** | **0.3** |
| **Financial liabilities – on balance sheet** | **1,054.9** | **215.8** | **427.6** | **230.8** | **12.8** | **1,941.9** |
| Undrawn loan commitments | **128.3** | **-** | **-** | **-** | **-** | **128.3** |
| **Total financial liabilities** | **1,183.2** | **215.8** | **427.6** | **230.8** | **12.8** | **2,070.2** |

CONSOLIDATED ENTITY 2019

| | Floating rate $m | >1-3 months $m | >3-12 months $m | >1-5 years $m | Non-interest bearing $m | Total $m |
|---|---|---|---|---|---|---|
| Cash and liquid assets | 46.5 | - | - | - | 2.2 | 48.7 |
| Receivables | - | - | - | - | 3.0 | 3.0 |
| Investment securities | - | 283.7 | 18.9 | - | - | 302.6 |
| Loans and advances | 1,083.0 | 28.3 | 211.7 | 302.5 | - | 1,625.5 |
| Investment at FVOCI | - | - | - | - | 7.6 | 7.6 |
| **Total financial assets** | 1,129.5 | 312.0 | 230.6 | 302.5 | 12.8 | 1,987.4 |
| Creditors, interest payable on deposits | - | - | - | - | 14.3 | 14.3 |
| Deposits from members – at call | 886.2 | - | - | - | - | 886.2 |
| Deposits from members – fixed term[1] | - | 114.7 | 459.9 | 229.5 | - | 804.1 |
| Negotiable Certificates of Deposit | - | 74.7 | 9.2 | - | - | 83.9 |
| Medium Term Notes | - | 20.0 | - | - | - | 20.0 |
| Withdrawable shares | - | - | - | - | 0.3 | 0.3 |
| **Financial liabilities – on balance sheet** | 886.2 | 209.4 | 469.1 | 229.5 | 14.6 | 1,808.8 |
| Undrawn loan commitments | 119.0 | - | - | - | - | 119.0 |
| **Total financial liabilities** | 1,005.2 | 209.4 | 469.1 | 229.5 | 14.6 | 1,927.8 |

[1] The period that these liabilities will re-price has been corrected.

### (iii.) Management of Interest Rate Risk in the Banking Book

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 at (v) Interest Rate Sensitivity.

### (iv.) Hedging

To mitigate this risk the Bank may enter into pay fixed/receive floating interest rate swaps. The interest rate risk on fixed rate loans/assets may be hedged by purchasing pay fixed/receive floating interest rate swaps. At 30 June 2020 there were no notional principal amounts of the interest rate swap contracts (2019: nil). There were no hedging instruments as at 30 June 2020 or 30 June 2019. The valuation of any derivative transactions is based on mid-market levels as of the close of business on the reporting date. 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 the table at (ii) Interest Rate Risk in the Banking Book, which details the contractual interest change profile.

Based on the calculations as at 30 June 2020, the change to the Economic Value of Equity from a 100bp shock (ΔEVE) is \$1.0 million. 1 year Value at Risk (VaR) with 99% confidence was \$3.4m with a 1.84% impact on Capital.

The Bank performs a sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity is to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next twelve months. In performing the calculation, the assumptions applied are that:

- » the interest rate change is applied equally over the loan products and term deposits;
- » the rate change is as at the beginning of the twelve month period and no other rate changes are effective during the period;
- » the term deposits all reprice to the new interest rate at the term maturity, or are replaced by deposits with similar terms and rates applicable;
- » savings deposits do not reprice in the event of a rate change;
- » fixed rate loans all reprice to the new interest rate at the contracted date;
- » variable rate mortgage loans all reprice to the new interest rate in one month;
- » personal loans reprice at the contracted maturity date;
- » all loans are repaid in accordance with the current average repayment rate (or contractual repayment terms);
- » the value and mix of call savings to term deposits is unchanged; and
- » the value and mix of personal loans to mortgage loans is 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.

## Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flow commitments without negatively affecting the Bank's daily operations or its financial condition. Board policies require the maintenance of adequate cash reserves and committed credit facilities to meet the member withdrawal demands and other creditor commitments when requested, as well as appropriate forecasting and stress testing procedures.

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;
- » monitoring the prudential liquidity ratio daily;
- » holding repo-eligible securities that may be used as collateral when borrowing from the Reserve Bank of Australia; and
- » maintaining a securitisation trust to hold mortgage rights that may be provided as collateral should the Bank borrow from the Reserve Bank of Australia.

The Bank is subject to the minimum liquidity holdings approach under Prudential Standard APS 210 and as such is not required to adopt the liquidity coverage ratio or net stable funding ratio measures. The Bank is required to maintain a minimum 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours. The Bank's risk appetite is to maintain at least 11% of funds as liquid assets to maintain adequate funds to meet member withdrawal requests. The ratio is calculated daily. Should the liquidity ratio fall below this level, Management and the Board have policies and procedures in place to address the matter and ensure that liquid funds are obtained from new deposits, either from Authorised Deposit-taking Institutions (ADIs), retail and wholesale depositors, or available borrowing facilities.

The Bank complied with all APRA liquidity requirements throughout the year.

*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 following table 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.

CONSOLIDATED ENTITY

2020

| | Less than 3 months | >3-12 months | >1-5 years | >5 years | Total | Balance sheet |
|---|---|---|---|---|---|---|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Cash and liquid assets | 59.1 | - | - | - | 59.1 | 59.1 |
| Receivables | 3.5 | - | - | - | 3.5 | 3.5 |
| Investment securities | 179.6 | 59.8 | 124.9 | - | 364.3 | 364.3 |
| Loans and advances | 55.6 | 11.6 | 104.0 | 1,515.4 | 1,686.6 | 1,686.6 |
| Investment at FVOCI | - | - | - | 9.3 | 9.3 | 9.3 |
| **Total financial assets** | **297.8** | **71.4** | **228.9** | **1,524.7** | **2,122.8** | **2,122.8** |
| Trade creditors and accruals | 8.5 | - | - | - | 8.5 | 8.5 |
| Interest payable on deposits | 4.0 | - | - | - | 4.0 | 4.0 |
| Lease liabilities | 0.3 | 0.8 | 3.2 | 0.6 | 4.9 | 4.9 |
| Deposits from members – at call | 1,054.9 | - | - | - | 1,054.9 | 1,054.9 |
| Deposits from members – fixed term | 285.3 | 361.6 | 87.6 | - | 734.5 | 734.5 |
| Negotiable Certificates of Deposit | 70.8 | - | - | - | 70.8 | 70.8 |
| Medium Term Notes | 20.0 | - | - | - | 20.0 | 20.0 |
| RBA Term Funding Facility | - | - | 49.0 | - | 49.0 | 49.0 |
| **On balance sheet financial liabilities** | **1,443.8** | **362.4** | **139.8** | **0.6** | **1,946.6** | **1,946.6** |
| Undrawn loan commitments | 128.3 | - | - | - | 128.3 | - |
| **Total financial liabilities** | **1,572.1** | **362.4** | **139.8** | **0.6** | **2,074.9** | **1,946.6** |

CONSOLIDATED ENTITY

2019

| | Less than 3 months | >3-12 months | >1-5 years | >5 years | Total | Balance sheet |
|---|---|---|---|---|---|---|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Cash and liquid assets | 48.7 | - | - | - | 48.7 | 48.7 |
| Receivables | 3.0 | - | - | - | 3.0 | 3.0 |
| Investment securities | 169.5 | 62.0 | 67.6 | 3.5 | 302.6 | 302.6 |
| Loans and advances | 20.7 | 57.2 | 338.6 | 1,213.5 | 1,630.0 | 1,625.5 |
| Investment at FVOCI | - | - | - | 7.6 | 7.6 | 7.6 |
| **Total financial assets** | 241.9 | 119.2 | 406.2 | 1,224.6 | 1,991.9 | 1,987.4 |
| Trade creditors and accruals | 7.2 | - | - | - | 7.2 | 7.2 |
| Interest payable on deposits | 7.1 | - | - | - | 7.1 | 7.1 |
| Deposits from members – at call | 886.2 | - | - | - | 886.2 | 886.2 |
| Deposits from members – fixed term | 310.9 | 352.6 | 140.6 | - | 804.1 | 804.1 |
| Negotiable Certificates of Deposit | 59.8 | 10.2 | - | - | 70.0 | 83.9 |
| Medium Term Notes | 20.0 | - | - | - | 20.0 | 20.0 |
| **On balance sheet financial liabilities** | 1,291.2 | 362.8 | 140.6 | - | 1,794.6 | 1,808.5 |
| Undrawn loan commitments | 119.0 | - | - | - | 119.0 | - |
| **Total financial liabilities** | 1,410.2 | 362.8 | 140.6 | - | 1,913.6 | 1,808.5 |

## Operational Risk

The Management Risk Committee is responsible for managing and reporting on Enterprise Risk across the Bank, including Operational Risk.

Operational risk is the risk of loss resulting from inadequate or failed processes, personnel, technology and infrastructure, and from external factors. It includes legal risk, but excludes strategic and reputational risk. Operational risk can occur at every level in an organisation. The seven key types of operational risks are: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practice; damage to physical assets; business disruption and system failures; and execution delivery and process management.

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. Some of these controls are:

- segregation of duties;
- documentation of policies and procedures, employee job descriptions and responsibilities;
- whistleblowing policies;
- effective dispute resolution procedures;
- effective insurance arrangements; and
- contingency plans for dealing with loss of systems and premises, and data/systems protection.

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

The Operational Risk Management Framework is underpinned by a culture of individual accountability and responsibility based on the three-line assurance model, which is represented at an operational level through business units and management as the first line, through designated risk management and compliance functions as the second line, and through internal audit, external audit and the respective Board subcommittees as the third line.

### *Compliance*

The Bank has a compliance program, requiring regular reviews of policies, procedures and reporting to ensure compliance with legal requirements and Prudential Standards.

### *Fraud*

The Bank has systems, policies and processes in place that are considered to be robust enough to prevent material fraud.

### *Outsourcing arrangements*

The Bank has arrangements with other organisations to facilitate the supply of services to members.

*Cuscal Limited*

Cuscal Limited is an ADI that supplies settlement, transaction processing, card, interchange and other services to other organisations including banks, credit unions and building societies. In relation to the Bank, Cuscal Limited:

- provides settlement services for member cheques, Electronic Funds Transfer (EFT), EFTPOS, ATM, Direct Entry, BPAY, NPP, Mobile Banking and Visa card transactions and real-time gross settlement system (RTGS) payments;
- facilitates switching activities to link Visa cards operated through RediATMs and other approved ATM providers to the Bank's computer systems; and
- manages the supply of Visa Cards and provides Fraud Monitoring services for card transactions.

*Ultradata Australia Pty Limited*

Ultradata Australia Pty Limited provides and maintains the share registry and core banking software utilised by the Bank.

## Capital Management

Capital levels are managed to ensure compliance with APRA's requirements. Those requirements encompass a framework of three pillars:

- Pillar 1 – minimum capital requirements, including a specific capital charge for operational risk;
- Pillar 2 – enhanced supervision of capital management including the application of an internal capital adequacy assessment process; and
- Pillar 3 – more extensive disclosure requirements.

### *Pillar 1*

Capital is measured as prescribed by APRA's prudential standards. These standards act to deliver capital requirements in respect of credit risk, market risk and operational risk.

*Credit risk*

Credit risk is measured using the Standardised Approach in Prudential Standards APS 112. The capital charge attached to each asset is based on weightings prescribed in Australian Prudential Standards.

*Market risk*

The Bank is not required to allocate capital against market risk as no trading activity is undertaken and the Standardised Approach does not result in any allocation against interest rate risk in the banking book.

*Operational risk*

Operational risk is measured using the Standardised Approach defined in Prudential Standard APS 114. 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.

The Bank's operational risk capital requirement was $9.0 million.

### *Capital resources*

*Tier 1 Capital*

The majority of Tier 1 capital consists of Common Equity 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 by APRA. Refer to the following table for details of what makes up the Tier 2 capital.

| | 2020 $m | 2019 $m |
|---|---|---|
| **Tier 1** | | |
| Tier 1 common equity | **202.8** | 203.7 |
| Less: prescribed deductions | **(15.5)** | (15.0) |
| **Net tier 1 capital** | **187.3** | 188.7 |
| **Tier 2** | | |
| Reserve for credit losses[1] | **6.6** | 3.2 |
| Tier 2 capital | **6.6** | 3.2 |
| **Total capital** | **193.9** | 191.9 |

[1] The APRA definition of reserve for credit losses currently differs from the Accounting Standards. APRA will be aligning its definition from 1 January 2021.

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

The capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The Bank manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. The Bank's policy requires reporting to the Board and the regulator if the capital ratio falls below 14.5%. Further, a 5-year capital projection is maintained to assess how strategic decisions or trends may impact on the level of capital.

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

| 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **18.27%** | 19.12% | 19.40% | 18.65% | 18.87% |

### *Pillar 2*

Pillar 2 of the Prudential framework relates to any risk factor to which an ADI might be exposed that is not included in Pillar 1.

These risks fall into 3 categories:

- Pillar 1 risks not fully captured by the Pillar 1 process, for example credit concentration risk.
- Inherent risks not covered by Pillar 1, including:
  - Interest rate risk in the banking book;
  - Liquidity risk; and
  - Strategic risk.
- Risks arising from external factors such as business cycles effects and the macroeconomic environment.

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

- Asset impairment – the impact of economic and employment factors on the loan losses, and/or recovery of investments.
- 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.
- Interest rate risk – the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
- Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

*Internal Capital Adequacy Management*

The Bank manages its internal capital levels for both current and future activities through a combination of 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 is assessed by the Board. Management then updates the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

# 14. Financial instruments

## Net fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

**Level 1** – quoted prices (unadjusted) in active markets for identical instruments.

**Level 2** – valuation techniques for which all significant inputs are based on observable market data.

**Level 3** – valuation techniques for which all significant inputs are not based on observable market data.

When applicable, the fair value of an instrument is calculated using the quoted price in an active market for that instrument. A market is regarded as active if all transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments, fair values are determined using other techniques.

If the input used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

There were no transfers between Level 1 and Level 2 fair value measurements during the period and no transfers into or out of Level 3 fair value measurements during the year ending 30 June 2020.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

*Financial instruments carried at fair value*

- Financial instruments classified as FVOCI are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated based on pricing models or other recognised valuation techniques.

*Financial instruments carried at amortised cost*

- The fair values of liquid assets and other assets maturing within 12 months approximate their carrying amounts. This assumption is applied to cash and liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of at call deposits with no specific maturity is approximately their carrying amount as they are short-term in nature or are payable on demand.
- The fair value of term deposits at amortised cost is estimated by reference to current market rates offered on similar deposits.
- The fair value of variable rate financial instruments including loan assets and liabilities carried at amortised cost are approximated by their carrying value. In the case of loan assets held at amortised cost, changes in the fair value do not reflect changes in credit quality, as the impact of credit risk is largely recognised separately by deducting the amount of an allowance for credit losses.
- The fair value of fixed rate loans at amortised cost is estimated by reference to current market rates offered on similar loans.

The following table shows the carrying amount and the fair values of financial assets and financial liabilities under AASB 9, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.



CONSOLIDATED ENTITY & POLICE BANK LIMITED

2020

| | Carrying value | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 | Fair value Total |
|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m |
| Investment securities | 364.3 | - | 366.1 | - | 366.1 |
| Loans and advances (before provision) | 1,693.6 | - | - | 1,694.3 | 1,694.3 |
| Investment at FVOCI - shares in Cuscal Limited | 9.3 | - | - | 9.3 | 9.3 |
| **Total financial assets** | **2,067.2** | **-** | **366.1** | **1,703.6** | **2,069.7** |
| Deposits | 1,789.6 | - | - | 1,790.2 | 1,790.2 |
| Borrowings | 139.8 | - | - | 139.8 | 139.8 |
| **Total financial liabilities** | **1,929.4** | **-** | **-** | **1,930.0** | **1,930.0** |

CONSOLIDATED ENTITY & POLICE BANK LIMITED

2019

| | Carrying value | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 | Fair value Total |
|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m |
| Investment securities | 302.6 | - | 301.1 | - | 301.1 |
| Loans and advances (before provision) | 1,630.0 | - | - | 1,630.4 | 1,630.4 |
| Investment at FVOCI - shares in Cuscal Limited | 7.6 | - | - | 7.6 | 7.6 |
| **Total financial assets** | **1,940.2** | **-** | **301.1** | **1,638.0** | **1,939.1** |
| Deposits | 1,690.6 | - | - | 1,691.7 | 1,691.7 |
| Borrowings | 103.9 | - | - | 105.4 | 105.4 |
| **Total financial liabilities** | **1,794.5** | **-** | **-** | **1,797.1** | **1,797.1** |

## 15. Standby credit facilities

The Bank has the following standby credit facilities:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Cuscal overdraft facility | 4.0 | 4.0 | 4.0 | 4.0 |
| Amount drawn | - | - | - | - |
| **Total facilities available** | **4.0** | **4.0** | **4.0** | **4.0** |

The Bank has an overdraft facility with Cuscal and maintains a security deposit of $20.8 million with Cuscal to secure this facility and settlement services. No other form of security is provided by the Bank.

## 16. Reserves

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Other reserves | 46.4 | 45.2 | 46.4 | 45.2 |
| Asset revaluation reserve | 1.0 | 1.1 | 1.0 | 1.1 |
| Fair value reserve | 3.8 | 2.6 | 3.8 | 2.6 |
| Credit losses reserve | 3.2 | 3.2 | 3.2 | 3.2 |
| Transfer of business reserve | 7.0 | 7.0 | 7.0 | 7.0 |
| **Total reserves** | **61.4** | 59.1 | **61.4** | 59.1 |

| Other reserves | | | | |
|---|---|---|---|---|
| Balance at beginning of financial year | 45.2 | 44.0 | 45.2 | 44.0 |
| Allocation of funds to general reserve | 1.2 | 1.2 | 1.2 | 1.2 |
| Other | 0.1 | - | - | - |
| **Balance at end of financial year** | **46.5** | 45.2 | **46.4** | 45.2 |

| Fair value reserve | | | | |
|---|---|---|---|---|
| Balance at beginning of financial year | 2.6 | - | 2.6 | - |
| Revaluation of Cuscal shares (net of tax) | 1.2 | 2.6 | 1.2 | 2.6 |
| **Balance at end of financial year** | **3.8** | 2.6 | **3.8** | 2.6 |

Refer to note 26 for information regarding the prior period restatements.

### Nature and purpose of reserves

#### *Other reserves*

Other reserves includes the general reserve and the cash flow hedging reserve.

The general reserve is a reserve created by the Board in accordance with the Constitution into which the Board may allocate funds. At the Board's discretion the funds in the general reserve may be used for the business of the Bank subject that the funds must not be distributed to Members except upon the winding up of the Bank.

The cash flow hedging reserve would comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of applicable income tax.

#### *Asset revaluation reserve*

The asset revaluation reserve relates to the revaluation of property assets.

#### *Fair value reserve*

The fair value reserve includes the cumulative net change in fair value of the investment in Cuscal shares until the investment is derecognised or impaired, net of applicable income tax.

#### *Credit losses reserve*

The credit losses reserve contains an additional allowance for impairment losses, above that calculated in accordance with note 6. The credit losses reserve together with the amounts calculated in accordance with note 6 must be adequate to comply with prudential requirements.

#### *Capital reserve*

The capital reserve represents the amount of redeemable preference shares redeemed since 1 July 1999.

The Corporations Act requires that the redemption of shares be made out of profits. Since the value of the shares redeemed has been paid to members in accordance with the Constitution of the Bank, the redeemed capital reserve account represents the amount of profits allocated to the account.

#### *Transfer of business reserve*

Mergers with other mutual entities are accounted for by recognising the identifiable assets and liabilities of the transferred entity on the Statement of Financial Position at their fair value at the date of the merger. The excess of the fair value of the assets taken up over liabilities assumed is taken directly to equity as a reserve.

# Other disclosures

## 17. Receivables

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Interest receivable on deposits with other financial institutions | 0.8 | 1.1 | 0.8 | 1.1 |
| Sundry debtors | 2.7 | 1.9 | 2.4 | 1.6 |
| Inter-company receivables | - | - | 0.3 | 4.2 |
| **Total receivables** | **3.5** | 3.0 | **3.5** | 6.9 |

Refer to note 26 for information regarding the prior period restatements.

Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for expected credit losses. The Bank holds these financial assets in order to collect the contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal amount outstanding.

## 18. Property, plant and equipment and right-of-use assets

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Land[1] | 5.4 | 5.4 | 5.4 | 5.4 |
| **Buildings** | | | | |
| At cost[1] | 12.2 | 12.2 | 12.2 | 12.2 |
| Less: accumulated depreciation | (1.7) | (1.4) | (1.7) | (1.4) |
| **Total buildings** | **10.5** | 10.8 | **10.5** | 10.8 |
| **Total land and buildings** | **15.9** | 16.2 | **15.9** | 16.2 |
| **Plant and equipment** | | | | |
| At cost[2] | 6.9 | 8.2 | 6.7 | 8.0 |
| Less: accumulated depreciation | (3.7) | (4.6) | (3.6) | (4.5) |
| **Total plant and equipment** | **3.2** | 3.6 | **3.1** | 3.5 |
| **Leasehold improvements** | | | | |
| At cost | 2.2 | 4.1 | 2.2 | 4.0 |
| Less: accumulated amortisation | (1.7) | (2.3) | (1.7) | (2.2) |
| **Total leasehold improvements** | **0.5** | 1.8 | **0.5** | 1.8 |
| **Right-of-use assets – property** | | | | |
| At cost | 8.0 | - | 7.4 | - |
| Less: accumulated amortisation | (1.0) | - | (0.9) | - |
| Less: adjustment for revised assumptions[3] | (2.5) | - | (2.5) | - |
| Less: impairment | (0.8) | - | (0.8) | - |
| **Total right-of-use assets – property** | **3.7** | - | **3.2** | - |
| **Right-of-use assets – motor vehicles** | | | | |
| At cost | 0.6 | - | 0.6 | - |
| Less: accumulated amortisation | (0.2) | - | (0.2) | - |
| **Total right-of-use assets – motor vehicles** | **0.4** | - | **0.4** | - |
| **Total property, plant and equipment and right-of-use assets** | **23.7** | 21.6 | **23.1** | 21.5 |

[1] The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to correctly classify amounts between land and buildings.

[2] The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to the current year presentation.

[3] At 1 July 2019, it was assumed that lease extension options would be exercised for all leases. This assumption was revised when the decision to close certain branches was made.

A reconciliation of the carrying amount of property, plant and equipment and right-of-use assets at the beginning and end of the financial year is set out below:

| | CONSOLIDATED ENTITY | | | | | | POLICE BANK LIMITED | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | LAND & BUILDINGS | PLANT & EQUIPMENT | LEASEHOLD IMPROVEMENTS | ROU ASSETS – PROPERTY | ROU ASSETS – MOTOR VEHICLES | TOTAL | LAND & BUILDINGS | PLANT & EQUIPMENT | LEASEHOLD IMPROVEMENTS | ROU ASSETS – PROPERTY | ROU ASSETS – MOTOR VEHICLES | TOTAL |
| | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m | $m |
| **At 1 July 2018** | | | | | | | | | | | | |
| Opening carrying value | 16.5 | 4.0 | 0.7 | - | - | 21.2 | 16.5 | 3.9 | 0.7 | - | - | 21.1 |
| Additions | - | 0.1 | 1.6 | - | - | 1.7 | - | 0.1 | 1.6 | - | - | 1.7 |
| Disposals | 0.2 | (0.1) | - | - | - | 0.1 | 0.2 | (0.1) | - | - | - | 0.1 |
| Depreciation/ amortisation | (0.5) | (0.4) | (0.5) | - | - | (1.4) | (0.5) | (0.4) | (0.5) | - | - | (1.4) |
| **At 30 June 2019** | 16.2 | 3.6 | 1.8 | - | - | 21.6 | 16.2 | 3.5 | 1.8 | - | - | 21.5 |
| **At 1 July 2019** | | | | | | | | | | | | |
| Opening carrying value | **16.2** | **3.6** | **1.8** | **-** | **-** | **21.6** | **16.2** | **3.5** | **1.8** | **-** | **-** | **21.5** |
| Additions | **-** | **0.3** | **-** | **8.0** | **0.6** | **8.9** | **-** | **0.3** | **-** | **7.4** | **0.6** | **8.3** |
| Disposals | **-** | **(0.2)** | **(0.7)** | **(2.5)** | **-** | **(3.4)** | **-** | **(0.2)** | **(0.7)** | **(2.5)** | **-** | **(3.4)** |
| Depreciation/ amortisation | **(0.3)** | **(0.5)** | **(0.6)** | **(1.0)** | **(0.2)** | **(2.6)** | **(0.3)** | **(0.5)** | **(0.6)** | **(0.9)** | **(0.2)** | **(2.5)** |
| Impairment | **-** | **-** | **-** | **(0.8)** | **-** | **(0.8)** | **-** | **-** | **-** | **(0.8)** | **-** | **(0.8)** |
| **At 30 June 2020** | **15.9** | **3.2** | **0.5** | **3.7** | **0.4** | **23.7** | **15.9** | **3.1** | **0.5** | **3.2** | **0.4** | **23.1** |

The 2019 balances for both the Consolidated Entity and Police Bank Limited have been restated to correctly record the movements which comprise the property, plant and equipment balances.

The value of property, plant and equipment is measured as the cost of the asset less depreciation and impairment. The cost of the asset includes acquisition costs and any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit and Loss and Other Comprehensive Income during the financial period in which they are incurred.

### Depreciation

With the exception of freehold land, items of property, plant and equipment are depreciated on a straight-line basis over their useful lives. The estimated useful lives are between 2.7 and 40 years. Land is not depreciated.

### Impairment

The Bank tests property, plant and equipment for impairment where there is an indicator that the asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### Disposals

Gains and losses on disposals are determined by comparing proceeds from disposals with the carrying amount of the property, plant and equipment and are included in the Statement of Profit and Loss and Other Comprehensive Income in the year of disposal.

The right-of-use assets – property disposal is where certain assumptions made on the adoption of AASB 16 around lease terms under extension options have been revised.



# 19. Intangible assets

| | CONSOLIDATED ENTITY | | | POLICE BANK LIMITED | | |
|---|---|---|---|---|---|---|
| | SOFTWARE | CUSTOMER LISTS | TOTAL | SOFTWARE | CUSTOMER LISTS | TOTAL |
| | $m | $m | $m | $m | $m | $m |
| **Cost** | | | | | | |
| At 1 July 2018 | 1.0 | 6.5 | 7.5 | 1.0 | - | 1.0 |
| Disposals | (0.2) | - | (0.2) | (0.2) | - | (0.2) |
| At 30 June 2019 | **0.8** | **6.5** | **7.3** | **0.8** | **-** | **0.8** |
| Additions | **1.0** | **-** | **1.0** | **1.0** | **-** | **1.0** |
| **At 30 June 2020** | **1.8** | **6.5** | **8.3** | **1.8** | **-** | **1.8** |
| **Accumulated amortisation** | | | | | | |
| At 1 July 2018 | (0.4) | (1.5) | (1.9) | (0.4) | - | (0.4) |
| Amortisation and impairment | (0.2) | (0.3) | (0.5) | (0.2) | - | (0.2) |
| Disposals | 0.1 | - | 0.1 | 0.1 | - | 0.1 |
| At 30 June 2019 | **(0.5)** | **(1.8)** | **(2.3)** | **(0.5)** | **-** | **(0.5)** |
| Amortisation and impairment | **(0.4)** | **(0.6)** | **(1.0)** | **(0.4)** | **-** | **(0.4)** |
| **At 30 June 2020** | **(0.9)** | **(2.4)** | **(3.3)** | **(0.9)** | **-** | **(0.9)** |
| **Carrying amounts** | | | | | | |
| At 30 June 2019 | 0.3 | 4.7 | 5.0 | 0.3 | - | 0.3 |
| **At 30 June 2020** | **0.9** | **4.1** | **5.0** | **0.9** | **-** | **0.9** |

### Customer Lists

Customer lists acquired in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, acquired intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

### Software

Costs incurred in developing systems and acquiring software and licenses that will contribute future financial benefits are capitalised. These include external direct costs of materials and services and direct payroll and payroll related costs of employees' time spent on the project.

### Impairment and recoverable amount

Intangible assets with an indefinite useful life are tested for impairment annually. Intangible assets with a finite useful life are assessed for impairment at each reporting date by evaluating if any impairment triggers exist. Where impairment triggers exist, management calculate the recoverable amount. The asset will be impaired if the carrying value exceeds the recoverable amount. Critical judgements are made by the Bank in setting appropriate impairment triggers and assumptions used to determine the recoverable amount.

At 30 June 2020 no triggering events were noted (2019: none).

### Amortisation and impairment

Amortisation is charged to the Statement of Profit or Loss and Other Comprehensive Income over the estimated useful lives of the intangible assets. The estimated useful lives for software for the current and comparative year was 2.7 years.

An annual impairment for customer lists has been recorded in line with the run-off rate for the underlying portfolio value.

# 20. Creditors and other liabilities

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Trade creditors and accruals | **8.5** | 7.2 | **8.4** | 7.0 |
| Interest payable on deposits | **4.0** | 7.1 | **4.0** | 7.1 |
| Provision for employee benefits | **1.5** | 2.2 | **1.4** | 2.1 |
| Provision for leasehold make good | **0.7** | 0.9 | **0.7** | 0.9 |
| Sundry provisions | **0.3** | 0.7 | **0.1** | 0.5 |
| **Total creditors and other liabilities** | **15.0** | 18.1 | **14.6** | 17.6 |

Refer to note 26 for information regarding the prior period restatements.

Trade creditors and accruals represent liabilities for goods and services provided to the Bank prior to the end of the financial year which are unpaid. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

## Provisions

A provision is recognised in the Statement of Financial Position when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation.

## Provision for employee benefits

The provision for employee benefits represents annual leave and long service leave entitlements accrued for employees. For the long service leave entitlements, $0.1 million matures in more than 12 months.

### *Superannuation*

The Bank contributes on behalf of its employees into superannuation funds under normal conditions of employment, and in satisfaction of the requirements of the Superannuation Guarantee Scheme. For the year ended 30 June 2020, if an employee had not made another choice, the Bank contributed to The Corporate Master Trust (administered by MLC). The Bank has no interest in this superannuation plan (other than as a contributor) and is not liable for either the performance or the obligations of the plan.



# 21. Related party transactions

## Transactions with Key Management Personnel (KMP)

The Bank's KMP are the individuals responsible for planning, controlling and managing the Bank, being the Non-Executive Directors, CEO and the Executive Leadership Team.

Key management personnel compensation was as follows:

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED | | | CONSOLIDATED ENTITY & POLICE BANK LIMITED | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Directors | Other KMP | Total | Directors | Other KMP | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Short term employee benefits | **659.7** | **2,545.6** | **3,205.3** | 595.3 | 2,393.9 | 2,989.2 |
| Post-employment benefits | **63.3** | **233.8** | **297.1** | 56.5 | 223.4 | 279.9 |
| Other long-term benefits | **-** | **21.8** | **21.8** | - | 51.8 | 51.8 |
| Termination benefits[1] | **269.3** | **657.2** | **926.5** | 111.3 | 10.8 | 122.1 |
| **Total** | **992.3** | **3,458.4** | **4,450.7** | 763.1 | 2,679.9 | 3,443.0 |

[1] The 2019 balance for Directors termination benefits has been restated to the correct amount.

Short term benefits are salaries and wages, paid annual leave and sick leave, bonuses and the value of fringe benefits received. Post-employment benefits are payments to defined contribution superannuation plans. Other long-term benefits is the net increase in the long service leave provision. All remuneration to Directors was approved by members at the previous Annual General Meeting.

## Loans to KMP

The aggregate value of loans and credit facilities to KMP at 30 June 2020 was as follows:

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED | | | CONSOLIDATED ENTITY & POLICE BANK LIMITED | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Mortgages - secured | Other term loans | Revolving credit facilities | Mortgages - secured | Other term loans | Revolving credit facilities |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Funds available to be drawn | **154.2** | **-** | **45.1** | 962.1 | - | 42.6 |
| Balance | **2,506.3** | **-** | **17.9** | 1,445.9 | - | 5.4 |
| Amounts disbursed or facilities increased in the year | **2,993.1** | **-** | **166.6** | 1,202.0 | - | 58.7 |
| Interest and other revenue earned | **43.6** | **-** | **0.5** | 67.2 | - | 0.7 |

All loans disbursed were approved in accordance with standard lending policies for each class of loan. No benefits or concessional terms and conditions are applicable to close family members of KMP. No loans to Directors, other KMP or their close family relatives are impaired.

### Other transactions with KMP

Other transactions with KMP include deposits and interest paid on deposits. The total value of these transactions was as follows:

| | CONSOLIDATED ENTITY & POLICE BANK LIMITED | |
|---|---|---|
| | 2020 | 2019 |
| | $'000 | $'000 |
| Term and savings deposits | **1,738.7** | 737.7 |
| Interest paid | **27.8** | 9.4 |

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.

### Transactions with other related parties

Other transactions with 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 close family members of the Directors and other KMP.

There are no service contracts to which KMP or their close family members are an interested party.

## 22. Auditors remuneration

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $ | $ | $ | $ |
| **Audit services** | | | | |
| Statutory audit of financial report and other statutory assurance services | **161,625** | 229,251 | **161,625** | 229,251 |
| **Other services** | | | | |
| Taxation services | **30,889** | 33,144 | **22,089** | 24,244 |
| **Total auditor's remuneration** | **192,514** | 262,395 | **183,714** | 253,495 |

Auditors of the Bank for the year ended 30 June 2020 are Deloitte Touche Tohmatsu Australia (2019: Grant Thornton). The taxation services relate to services provided by Grant Thornton.



## 23. Commitments

### a. Outstanding loan commitments

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Loans approved but not funded | **64.8** | 56.7 | **64.8** | 56.7 |
| Undrawn credit commitments | **52.0** | 49.7 | **52.0** | 49.7 |
| Loans available for redraw | **11.6** | 12.7 | **11.6** | 12.7 |
| **Total commitments** | **128.4** | 119.1 | **128.4** | 119.1 |

### b. Material service contract commitments

Commitments arise from material service contracts, which have been contracted for at balance date but not recognised in the Statement of Financial Position.

The Bank has contracts with Ultradata Australia Pty Limited for provision of the Bank's application software and associated support services and Optus for security management. The balance of fees payable under the contracts are payable over the following periods:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Within 1 year | **1.1** | 1.1 | **1.1** | 1.1 |
| 1 to 2 years | **1.0** | 1.1 | **1.0** | 1.1 |
| 2 to 5 years | **0.6** | 1.6 | **0.6** | 1.6 |
| Greater than 5 years | **-** | - | **-** | - |
| **Total** | **2.7** | 3.8 | **2.7** | 3.8 |

## 24. Cash flow information

### Cash flows from operating activities

Reconciliation of net profit after tax to net cash inflows from operating activities:

| | CONSOLIDATED ENTITY | | POLICE BANK LIMITED | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | $m | $m | $m | $m |
| Net profit for the year | **0.4** | 2.4 | **0.9** | 2.6 |
| Bad debts written off | **0.7** | 0.9 | **0.7** | 0.9 |
| Loss/(gain) on disposal of property, plant and equipment | **0.9** | (0.2) | **0.9** | (0.2) |
| Depreciation and amortisation | **3.6** | 1.9 | **2.9** | 1.6 |
| Impairment – right-of-use assets | **0.8** | - | **0.8** | - |
| (Increase)/decrease in receivables | **(0.5)** | 0.6 | **3.4** | 1.6 |
| Increase in creditors and other liabilities | **(3.1)** | (2.4) | **(3.0)** | (2.5) |
| Decrease in net deferred tax liabilities | **(0.8)** | (1.0) | **(0.8)** | (1.0) |
| Increase in loans and advances | **(64.0)** | (36.8) | **(64.0)** | (36.8) |
| Increase in provision for impaired loans | **2.2** | 3.4 | **2.2** | 3.4 |
| Increase in unamortised loan origination fees | **0.3** | 0.2 | **0.3** | 0.2 |
| Increase in deposits | **99.0** | 91.4 | **99.0** | 91.4 |
| **Net cash inflows from operating activities** | **39.5** | 60.4 | **43.3** | 61.2 |

During the year ended 30 June 2020, the Bank updated its presentation of a number of items within the Statement of Profit or Loss and the Statement of Financial Position. The prior year comparatives have been reclassified to conform to the new presentation.

### Cash flows presented on a net basis

Cash flows arising from loan advances and repayments, member deposits and withdrawals, member shares issued and redeemed and borrowings drawn and repaid are presented on a net basis in the Statement of Cash Flows.

### Cash flows from financing activities

The net cash inflows from financing activities have been reconciled in the Statement of Cash Flows.

## 25. Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

As at 30 June 2020, the Consolidated Entity has no material contingent liabilities which need to be disclosed.



## 26. Prior period restatement

The following tables summarise the impact on the Statement of Financial Position for the Consolidated Entity and Police Bank Limited for restatements identified during 2020.

| CONSOLIDATED ENTITY | AS PREVIOUSLY REPORTED | ADJUSTMENTS | AS RESTATED | |
|---|---|---|---|---|
| | $m | $m | $m | |
| **Assets** | | | | |
| Cash and liquid assets | 30.5 | 18.2 | 48.7 | (a) |
| Receivables | 4.0 | (1.0) | 3.0 | (b) |
| Current tax asset | - | 0.9 | 0.9 | (b) |
| Other assets | - | 1.6 | 1.6 | (b) |
| Investment securities | 302.6 | - | 302.6 | |
| Loans and advances | 1,625.5 | - | 1,625.5 | |
| Investment at FVOCI | 25.8 | (18.2) | 7.6 | (a) |
| Property, plant and equipment | 22.2 | (0.6) | 21.6 | (b) |
| Intangible assets | 5.0 | - | 5.0 | |
| Taxation assets | 2.0 | (2.0) | - | (b) |
| **Total assets** | 2,017.6 | (1.1) | 2,016.5 | |
| **Liabilities** | | | | |
| Deposits | 1,690.6 | - | 1,690.6 | |
| Borrowings | 103.9 | - | 103.9 | |
| Creditors and other liabilities | 14.4 | 3.7 | 18.1 | (b) |
| Provisions | 3.6 | (3.6) | - | (b) |
| Taxation liabilities | 1.8 | (1.2) | 0.6 | (b) |
| **Total liabilities** | 1,814.3 | (1.1) | 1,813.2 | |
| **Net assets** | 203.3 | - | 203.3 | |
| **Equity** | | | | |
| Share capital | 0.5 | - | 0.5 | |
| Reserves | 52.0 | 7.1 | 59.1 | (b) |
| Retained earnings | 149.5 | (6.7) | 142.8 | (b), (c) |
| **Equity attributable to Police Bank Limited** | 202.0 | 0.4 | 202.4 | |
| Non-controlling interest | 1.3 | (0.4) | 0.9 | (c) |
| **Total equity** | 203.3 | - | 203.3 | |

(a) Restatement of the presentation of the PCU 2009-1 Trust. During 2020, it was identified that the investment in the PCU 2009-1 Trust should be treated by Police Bank Limited as an investment in subsidiary and an intercompany receivable. For the Consolidated Entity, it should be treated as restricted cash and cash at bank. It had previously been classified as an investment carried at amortised cost in the Statement of Financial Position for both Police Bank Limited and the Consolidated Entity.

(b) Reclassification of 2019 to conform to the new presentation in 2020.

(c) Restatement of the non-controlling interest and retained earnings of Police Bank Limited to account for 20% of the intangible asset impairment as an expense of the non-controlling interest. The intangible asset impairment expense had previously been attributed to Police Bank Limited at 100%.

| POLICE BANK LIMITED | AS PREVIOUSLY REPORTED | ADJUSTMENTS | AS RESTATED | |
|---|---|---|---|---|
| | $m | $m | $m | |
| **Assets** | | | | |
| Cash and liquid assets | 30.0 | - | 30.0 | |
| Receivables | 3.7 | 3.2 | 6.9 | (a), (b) |
| Current tax asset | - | 0.9 | 0.9 | (b) |
| Other assets | - | 1.6 | 1.6 | (b) |
| Investment securities | 302.6 | - | 302.6 | |
| Loans and advances | 1,625.5 | - | 1,625.5 | |
| Investment at FVOCI | 25.8 | (18.2) | 7.6 | (a) |
| Investment in subsidiaries | 5.4 | 14.0 | 19.4 | (a) |
| Property, plant and equipment | 22.1 | (0.6) | 21.5 | (b) |
| Intangible assets | 0.3 | - | 0.3 | |
| Taxation assets | 2.0 | (2.0) | - | (b) |
| **Total assets** | 2,017.4 | (1.1) | 2,016.3 | |
| **Liabilities** | | | | |
| Deposits | 1,690.6 | - | 1,690.6 | |
| Borrowings | 103.9 | - | 103.9 | |
| Creditors and other liabilities | 14.1 | 3.5 | 17.6 | (b) |
| Provisions | 3.5 | (3.5) | - | (b) |
| Taxation liabilities | 1.7 | (1.1) | 0.6 | (b) |
| **Total liabilities** | 1,813.8 | (1.1) | 1,812.7 | |
| **Net assets** | 203.6 | - | 203.6 | |
| **Equity** | | | | |
| Share capital | 0.5 | - | 0.5 | |
| Reserves | 52.0 | 7.1 | 59.1 | (b) |
| Retained earnings | 151.1 | (7.1) | 144.0 | (b) |
| **Equity attributable to Police Bank Limited** | 203.6 | - | 203.6 | |
| Non-controlling interest | - | - | - | |
| **Total equity** | 203.6 | - | 203.6 | |

(a) Restatement of the presentation of the PCU 2009-1 Trust. During 2020, it was identified that the investment in the PCU 2009-1 Trust should be treated by Police Bank Limited as an investment in subsidiary and an intercompany receivable. For the Consolidated Entity, it should be treated as restricted cash and cash at bank. It had previously been classified as an investment carried at amortised cost in the Statement of Financial Position for both Police Bank Limited and the Consolidated Entity.

(b) Reclassification of 2019 to conform to the new presentation in 2020.

(c) Restatement of the non-controlling interest and retained earnings of Police Bank Limited to account for 20% of the intangible asset impairment as an expense of the non-controlling interest. The intangible asset impairment expense had previously been attributed to Police Bank Limited at 100%.

The adjustments have had no effect on net assets nor have they had an effect on reported profit for the period.



# 27. Accounting policies

## a. Basis of preparation

The consolidated financial statements are general purpose financial statements which have 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 and International Financial Reporting Standards;
- on a going concern basis in the belief that Police Bank Limited and its controlled entities will be able to pay its debts as and when they become due and payable;
- under the historical cost convention, as modified by the revaluation for financial assets at fair value through the Consolidated Statement of Profit or Loss and Other Comprehensive Income;
- using consistent accounting policies with adjustments to bring into line any dissimilar accounting policies being adopted by the controlled entities; and
- in Australian dollars with all values rounded to the nearest hundred thousand dollars in accordance with ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, unless otherwise stated.

Comparatives in the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements have been restated to the current year presentation. There was no effect on the profit for the year.

The accounting policies are consistent with the prior year unless otherwise stated.

The financial report was approved by the Board of Directors on 29 October 2020.

## b. Basis of consolidation

The consolidated entity's financial statements report the assets, liabilities and results of Police Bank Limited and its controlled entities for the financial year.

Controlled entities are all entities over which Police Bank has control. Police Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Controlled entities are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of controlled entities is accounted for using the acquisition method of accounting. All intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated.

The key subsidiary of the Bank is Chelsea Wealth Management. Police Bank Limited owns 80% of the share capital and the investment meets the definition of control prescribed above.

### Securitisation trust consolidation

Police Bank Limited has initiated the creation of a trust, the PCU-2009-1 Trust (the Trust), which holds rights to a portfolio of mortgage secured loans to enable Police Bank Limited to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements. Police Bank Limited 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 by Australian Accounting Standards, since Police Bank Limited has not transferred all risks and rewards to the Trust, the assigned loans are retained on the books of Police Bank Limited and are not derecognised.

## c. Other accounting policies

### *Goods and Services Tax (GST)*

As a financial institution, Police Bank Limited is input taxed on all income except for income from commissions and some fee income. 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 GST except where the GST incurred on the purchase of goods and services is not recoverable from the tax authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated inclusive of the amount of GST. The net amount of GST receivable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are included on a gross basis in the Statement of Cash Flows. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## d. New and amended accounting standards and interpretations adopted from 1 July 2019

The Bank has adopted AASB 16 *Leases* at 1 July 2019. AASB 16 replaces AASB 117 *Leases* and is effective for reporting periods beginning on or after 1 January 2019. The impact of adoption of this new standard is detailed in note 28.

## e. New accounting standards and interpretations issued but not yet adopted

There are no new standards or amendments to standards relevant to the Bank.

# 28. Adoption of new accounting standard

### AASB 16 *Leases*

The Bank has adopted AASB 16 using the modified retrospective transition approach. Under this approach, the lease asset is measured at an amount equal to the liability on 1 July 2019 with no restatement of comparatives for the 30 June 2019 reporting period.

### Policies applicable from 1 July 2019

Payments associated with short term leases and leases of low value assets are recognised on a straight-line basis as an expense in the Statement of Profit or Loss and Other Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT equipment.

Lease liabilities are initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Bank's incremental borrowing rate is used. The incremental borrowing rate is calculated by interpolating or extrapolating primary and secondary market yields on the Bank's domestic senior unsecured debt issuance (Negotiable Certificates of Deposit and Medium Term Notes) for a term equivalent to the lease. If there are no issuances that mature within a reasonable proximity of the lease term, indicative pricing of where the Bank can price a new senior unsecured debt issuance for a comparative term will be used in the calculation.

Lease liabilities are subsequently measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.

Interest on the lease liability and any variable lease payments not included in the measurement of the lease are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they relate. Interest on lease liabilities included in interest expense in the Statement of Profit or Loss and Other Comprehensive Income totalled $0.2 million for the year.

Right-of-use assets are measured at cost less depreciation and impairment and adjusted for any re-measurement of the lease liability. The cost of the asset includes:

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

Additions to the right-of-use assets during the year were $0.1 million.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Bank determines the lease term as the non-cancellable period of a lease together with both:

- the periods covered by an option to extend the lease if it is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise the option.

Management considers all the facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the year, the financial effect of revising lease terms was a decrease in recognised liabilities and right-of-use assets of $2.5 million.

The Bank tests right-of-use assets for impairment where there is an indicator that the asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Police Banks right of use assets are property leases and motor vehicle leases.

### Adjustments recognised on adoption of AASB 16 *Leases*

On adoption of AASB 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate for each lease as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liability was 2.3% for property leases and 1.7% for motor vehicle leases.

The difference between the future lease rental commitments disclosed at 30 June 2019 of $3.7 million and the lease liabilities recognised at 1 July 2019 of $8.6 million reflects:

- adjustments as a result of different treatment for extension options;
- removal of contracts reassessed as service agreements;
- inclusion of motor vehicle leases; and
- exclusion of GST.

Right-of-use assets were measured at an amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

### Practical expedients applied

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

- reliance on previous assessments on whether leases are onerous; and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

The Bank has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease* has been relied upon.

# 29. Events subsequent to reporting date

APRA have allowed self-securitised assets to be used as collateral for repurchase transactions through the RBA's Term Funding Facility, but have required ADI's to increase their self-securitisation amount.

In relation to the Bank's internal securitisation (refer to note 5), on 13 August 2020 the Bank increased the balance of its Notes from $160.3m to $532.0m. At the date of increase the Bank met APRA's requirement for the self-securitisation amount (measured as the 'AAA' rated class A gross note balance) to be the greater of:

- 25% of total liabilities; or
- The sum of:
  - 100% of total short-term wholesale liabilities;
  - 10% of all other liabilities; and
  - An amount sufficient to collateralise the RBA's Term Funding Facility.

On 27 August 2020, Management committed to a plan to sell 3 properties in Tasmania. An agent has been appointed and the properties are being actively marketed for sale.

Other than the above, the Directors are not aware of any matter or circumstances occurring since 30 June 2020 that has significantly or may significantly affect the operations of the Bank, the results of those operations or the state of affairs of the Bank in subsequent financial years.

# Directors' Declaration

Year ended 30 June 2020

In the opinion of the Directors of Police Bank Limited (the Bank):

**(a)** The financial statements and notes set out on pages 35 to 79 are in accordance with the *Corporations Act 2001*, including:

- complying with Accounting Standards, the Corporations Regulation 2001 and other mandatory professional reporting requirements; and
- giving a true and fair view of the Bank's and consolidated entity's financial position as at 30 June 2020 and of their performance, for the financial year ended on that date.

**(b)** The financial statements and notes comply with International Financial Reporting Standards as disclosed in note 26 to the financial statements.

**(c)** There are reasonable grounds to believe that the Bank and its controlled entities will be able to pay its debts as and when they become due and payable.

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

**Peter Remfrey**
Chair

Sydney
30 October 2020

**Raff Del Vecchio**
Deputy Chair

Sydney
30 October 2020



# Independent Auditor's Report

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## Independent Auditor's Report to the Members of Police Bank Limited

### Report on the Audit of the Financial Reports

***Opinion***

We have audited the financial reports of Police Bank Limited (the "Company") and its subsidiaries (the "Group") which comprises the Group and the Company's statements of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial reports of the Group and the Company are in accordance with the *Corporations Act 2001*, including:

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

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

***Basis for Opinion***

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Reports* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company (the "directors"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

***Other Information***

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

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

# Independent Auditor's Report

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In connection with our audit of the financial reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Directors for the Financial Reports***

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

In preparing the financial reports, the directors are responsible for assessing the ability of the Group and the Company to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

***Auditor's Responsibilities for the Audit of the Financial Reports***

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group or the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial reports or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concerns.

- Evaluate the overall presentation, structure and content of the financial reports, including the disclosures, and whether the financial reports represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 30 October 2020

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