



PoliceBank 
The strength of community

ANNUAL REPORT 2021

Supporting our Police
and community partners

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About Police Bank

Police Bank began in 1964 as the Police Credit Union No. 1, serving the members of the NSW PF No. 1 Division. Since its inception, Police Bank has not wavered from its vision of making Police officers' lives easier with straightforward banking products delivered by a supportive team.

PCU No. 1 was opened to all serving NSW Police officers and broadened to serve the Australian Federal Police, Tasmanian Police and the Australian Border Force, who were previously served by HMC Credit Union which started in 1962.

Now as Police Bank – incorporating PCU No.1, HMC Staff Credit Union and Heritage Isle Credit Union – the bank remains an unequivocally member-owned, member-centric, and member-run institution. The bank remains true to its roots, and understands the pressures faced by our community and the bank's need to design and deliver products that match the needs of our unique membership, in addition to being ready to help when they need it.

For this reason, we continue to invest in bolstering our customer service, improving the digital experience, and simplifying our products for different life stages.

The end state will be lower home loan rates, higher term and other deposit rates, and a tech and mobile offering the equal of any bank in Australia.

The past two years have brought new challenges to our Police and Border Force members across the country, which has compelled us to find new ways to embrace and support our community. As frontline workers, it's no secret Police Bank members have

had to take on extraordinary new responsibilities due to the COVID-19 pandemic, while continuing to serve communities with regular duties. Our members have been stationed at border cross points and at airports, and they have been on the receiving end of frustration about the ongoing pandemic as they work to keep our communities safe.

Where possible within covid restrictions, Police Bank has aimed to support our members in the past year to foster an even greater sense of community through shared experience. We've done this through sponsoring and hosting events, partnered with the various Police associations and their conferences, work with sporting festivals organisers and worked closely with groups and individual serving members. We've also continued our support of Police Legacies across three jurisdictions to help the families of members we've tragically lost. And we always help individual members who have needed assistance with their finances, especially through financial literacy programs and covid relief.

Last year, we announced plans to modernise Police Bank and we have continued this journey in 2021. Covid accelerated the change in banking that was occurring – and which led to branch closures in 2020 – hastening our investment in mobile and online services. We believe this puts us in the best position to serve our members into the future, and to stay competitive with the market on fees and interest rates. It also helps us to continue to give back to the community, and to support individual members. Police Bank will always put members and their long-term financial wellbeing at the centre of all decision-making.

“... we continue to invest in bolstering our customer service, improving the digital experience, and simplifying our products for different life stages.”

Chairman's Introduction

Setting the bank up for the next 60 years

Once again, the past financial year has been one of substantial change, as we continued Police Bank's modernisation journey. I'm pleased to report we have started to see positive results from the changes we implemented in the 2020 financial year. Both the board and executive leadership team made some difficult decisions to re-establish Police Bank as a sustainable standalone entity in the future, including a restructure and the closure of several branches in 2020-21. As we reported at the time, these decisions were not taken lightly, but have allowed us to shore up our future and reinvest in our technology offering to our members. They have also repositioned us to offer members competitive loans and investments in the years ahead. It's important to stress that our members, their families and their future financial security is at the heart of every decision we make as a board and management team.

The COVID-19 pandemic continued to challenge the Police community in last year, but I was heartened to see the many ways in which it also united us. When eased restrictions allowed, that unity and community spirit was on display at several sporting and social events throughout the year. Police Bank was excited to sponsor the NSW Police City/Country Carnival which incorporated the inaugural Women's Rugby League competition. Women's and men's teams were selected for NSW but sadly an outbreak of covid saw the games against Queensland cancelled. The carnival presented an opportunity for the first time to see some of our tremendous female players in action. I speak for the bank when I say, we could not wait to throw Police Bank's support behind our women's teams. We know sport is in the DNA of many Police officers and I am confident that when restrictions are relaxed, we will continue to support both women's and men's sport however we can. Fortunately, we have been able to continue to give back through the Police Legacies and Police Associations we partner with across

the country in what was a tough year for many. That support will endure as our financial position strengthens further.

Strong performance and positioning

I am delighted to report the bank's performance has been outstanding in the past year, despite the challenges the COVID-19 pandemic has presented. As I foreshadowed, the decisions we made 18 months ago have positioned us for future sustainability and growth. It is pleasing to see several of our key indicators have now turned around. I am confident we would not be in this position had we not made those difficult choices.

Given we have moved to more stable financial footing, we now have the capacity to make further investments and changes that will help to improve outcomes for our members. These include broadening our online banking services and investing in a new mobile app which will make it easier for members to access our services when they need them. We are committed to ensuring that Police Bank continues to hold our members' trust and that means balancing the needs of both our younger and older customers. To that end and to the extent the broader economic circumstances allow, we will work on keeping our interest rates competitively low for our homeowners, and our term deposit rates higher than other institutions for our savers.

Supporting members through hardship

Beyond our standard banking services and offerings, it is also important for us to continue to be able to support Police officers when they need it most. Unlike many banks, we are member owned, which means we don't have to pay any dividends to shareholders. This places us in the fortunate and unique position

of being able to chip in and help people in ways that are meaningful and customised. One example concerns a member of the Police family who had to take a short period of leave following a critical incident. Whilst he was recovering his Police family had their application for an investment loan renewal declined by a major bank. We heard about this decision and within 24 hours, we were able to refinance his investment loan and bring his housing loan across to us as well. As a member-focused bank, we look at the decisions we make through a different prism. While we are bound by regulatory obligations to assess the risk of each member and adhere to those regulations in every instance, we know the unique challenges our Police family faces and incorporate that into our decision making where we can. You can trust us to continue to help the people who are keeping us safe when they need it most.

The reason we exist: our Police and Border Force members, their families, and friends

Several individuals have contributed to both our strong balance sheet and ability to support the wider police community in the past 12 months, and I would like to take this opportunity to show my gratitude.

I would like to thank all our board members for their contributions in the past 12 months and in particular, NSW Police Commissioner Mick Fuller APM, who left the board earlier in the year to focus on the pandemic response.

I would also like to thank Police Bank's leadership team and all our staff for their continued commitment

and dedication through a period of change and modernisation. In a year of extraordinary challenges, the Police Bank team has shown tremendous engagement in the process of creating a better bank for members.

Finally, I would like to especially acknowledge our members and the entire Police and Border Force family. The exceptional work you have been doing during the COVID-19 pandemic has not gone unnoticed. Whether it is patrolling borders or quarantine hotels, enforcing the public health orders or continuing the job of protecting communities, we recognise the critical role you have played during the pandemic and thank you for placing yourselves in harm's way to keep us safe. While you have been out there serving us, we have been striving to reorganise the bank and shape it into something that works better for you and your families into the future

Thank you.



Peter Remfrey
Chair
Police Bank



CEO Report

When I wrote to you this time last year, Police Bank was in the middle of a strategic reset, which involved reinvigorating our culture, our financial sustainability, and our core purpose as a member-owned, and member-centric bank. It's been both a challenging and critical year for Police Bank, but I am delighted to report we've made important progress in returning to a bank that is fit for the people serving our communities – our Police and Border Force members, their families and friends across Australia.

It's important for me to take this opportunity to acknowledge that we made some difficult decisions in FY20 out of absolute financial necessity. When I became CEO in March 2020, I had a mandate to rebuild the foundations of the Bank in keeping with what its members expected and in deference to the hard work done over almost 60 years by directors and staff of the Bank. We needed to improve profitability, so that the bank was once again on a stable and sustainable footing and could support our members and their financial dreams well into the future. As you know, these difficult decisions included closing branches across our network. At the time I didn't explain the financial imperative well enough, nor that these branches had seen a collapse in patronage as our members shifted their transactions online, through our contact centre or via our mobile phone app.

I accept I should have communicated better. Equally I would like to take this opportunity to say that I have heard you, and I am working on solutions to ensure our bank meets the needs of all members – young and older – in the future.

Building a better bank

The old Police Credit Union motto and core ethos was "for you, your family, your future". Honouring that ethos, by pushing toward lower loan rates and strong deposit rates, underpinned our strategy for the past financial year and will continue to do so. Our first goal was to reconnect with you, our members, which included hearing what you wanted from us as your bank and giving back to the community. We've done that through various mechanisms, including our continued support for Police Legacy and our sponsorship of the NSW Police Rugby League. Throughout the year, we've heard about the challenges COVID-19 created for you and have done our best to bring the community

together – through sport or social activities – where covid restrictions permitted. In the new financial year, we will strengthen that bond with our members and our community, especially through a commitment to exceptional customer service.

I know it's exceptional because you told us in this year's customer satisfaction survey, where we also were pleased and honoured to receive a net promoter score of +44. Thank you.

In the survey, and through daily and weekly feedback, our members tell us that customer service is critically important, and our strategy in the past year has aimed to extend the excellence in face-to-face service into our other channels like the contact centre, online and in the new mobile app we'll be launching in the second half of this financial year. Indeed, we have been modernising our bank and building out our functionality, so that we can incorporate a human touch even when we deliver services remotely or online. We want to ensure that our customers who do not wish to go to branches – which is now most of our membership – still receive the same level of customer service as our branch-visiting customers. That's important because members undertake almost three million transactions each month, but fewer than half of one per cent are done face-to-face. As a result, it's essential we meet and exceed your expectations of a digital, member-centric bank.

We also know that a branch presence is still important so our NSW and Canberra branches will be part of our offering for many years to come, as will our Bank@Post capabilities at every Australia Post Office. And with branch banking changing – as new technology offers new opportunities to serve members – we'll look to add to our offering where possible.

Of course, technology is a key component of our plan to deliver a better bank and we've made some exciting developments on that front. We have been developing an intuitive mobile app that will allow members to conduct all their banking with us in one place. We've also been improving our website to help deliver a better, all-round digital experience. When you're working to keep the community safe, the last thing you want to worry about is complicated financial transactions. We recognise that and have worked to make things simpler.

That means over the next two to three years we are making a substantial investment in the technological side of the business – if covid has proved anything it is that Australian and global banking is being shaken up by technology, and we need to be part of that modernisation. The good news is our strategic reset in 2020 has enabled us to invest substantial sums in this new capability because our financial position is once again strong.

Our financial performance over the past year saw a significant uplift year on year in both Net Profit After Tax (NPAT) and underlying profit terms. The Consolidated NPAT was \$4.2 million and the Underlying NPAT (excluding Transformation related costs) was \$5.2m for the year ended 30 June 2021.

This improvement demonstrates the underlying strength of our business model and connection to our community, achieved through a focus on member engagement, products that are aligned with our members' needs, and a renewed focus on cost controls.

Helping members achieve their goals

The past year has been a very busy one for our members and the community. Our members have been stretched in once-in-a-lifetime ways during the pandemic, and have often borne the brunt of community frustrations as frontline workers. These pressures are at the centre of our minds when we work on products and solutions to make members' financial lives easier, and to bring the attainment of your financial goals closer. Of course, goals change depending on age, which is why we've created products for different life stages.

For our younger members, we recognise the difficulties of housing affordability. We've made things easier by lowering our personal, credit card, and home loan interest rates, and our branch and mobile lending officers can help tailor housing loan solutions for your unique needs and circumstances. We received external validation of that when we won *Money Magazine's* Investment Lender of the Year again this year. Looking forward, we are now in the process of bringing in a new high interest rate savings product for new recruits and people under 30 to help you save for a deposit.

Our older members have different financial challenges, given the record low interest rate environment in which we are living. Standard savings or term deposit products tend to offer very little for the privilege of holding onto peoples' savings, so we've kept our term deposit rates well above the major banks to give members a little bit more where we can.

It's your bank

Sometimes it's important to go back to basics and remember the reason we're here: our members. Police Bank is not our bank, it's your bank. We have a duty to support you as you support the community. In practice, that means giving our members a superior customer service experience and taking the pressure off with products that are simple and fit for purpose. From an implementation perspective, these aims will be best achieved as we continue our modernisation journey and invest in our technology offering. As we continue to improve our profitability, we will also be able to give back to the community even further through our partnerships with the various Police Legacies, and Police Associations as well as bespoke support for members who need it.

As a final word, I would like to recognise and thank you all, our community. Whether you're part of the NSW, Australian Federal, or Tasmanian Police Forces, a member of the Australian Border Force, or simply family or friends, we know you've faced tremendous pressure and shown resilience through a difficult year. Our goal is to take the financial pain points away, and make one aspect of your life much easier. Thank you for coming with us on this journey as we try to build a better, member-centric bank.



Greg McKenna
CEO
Police Bank

Our strategy and business recalibration

When we unveiled our strategic roadmap last year, we underpinned six pillars that were key to building a better Police Bank: ignite our brand, service and sales culture, customer experience, simple products, commercial acumen, and cultural engagement.

Police Bank has achieved its objectives in each of those six areas, largely by re-engaging with our members, enhancing our staff training and processes, and improving our technology functionality.

Our work is not yet done and our strategic priorities this year are an extension of what we achieved in FY21. If we again refocus on some core goals, we will continue to establish Police Bank as a profitable, member-driven institution with superior service, products, and culture. One that is sustainable and standalone, serving the unique needs of our members and community for many years to come.

1. Strengthen the bond

Last year, we worked hard to re-ignite a bond with members and the Police and Border Force community. In some cases, that bond was not maintained because of lapsed contact or needed repair after a subpar experience. Having achieved our initial goal of reminding the members that we are here for them, we now need to strengthen that bond by delivering on our promise. We'll achieve that by offering great service, great rates, and – with our investments – great technology. We'll show you the changes we've made and give you a compelling reason to consider us for your banking needs.

2. Deliver on our promise

Police Bank made a promise last year that our level of customer service would be both exceptional and consistent across all our channels. In practice, that means delivering efficient answers to our customer queries, being available for our members when they need us, and showing care and respect. It is our mission to deliver on that promise, which will ensure our satisfied members become our key marketers. The Police community is tight-knit, and we want to grow our customer base through recommendations from other members. We must earn that through hard work and consistent service.

3. Build a better bank

Our fundamental goal is to build a better bank. One that is standalone and sustainable and one that understands and is able to serve the unique needs of our members well into the 2030's and beyond. We believe that objective is best achieved through the integration of technology across our network, including on our mobile site and app, in branches, and in offices. The best technology means that our members and their financial needs can be met with ease through a new omni-channel offering we are building. When we get our technology offering right, we'll also establish Police Bank as a bank of the future.

4. Member-centric products

When we reviewed our product offerings, it became apparent that some of our products had grown to be out of date. It's our priority in the new year to grandfather these products and continue our FY21 objective of matching simple products to our members' life stages. This means redesigning products that cater for our members from the time they are first recruited to their retirement and beyond. We will ensure our loan rates are as low as they can be, and our term deposit rates as high as they can be.

5. Sustainable bank

Like any bank, we have responsibilities to our regulator and that includes keeping the bank in profitable shape. Given we improved our balance sheet and earnings in FY21, our strategic priority this year is to maintain profitability, while meeting our members' evolving needs. We will do this while continuing to meet our regulatory requirements. Achieving sustainability will involve a continued cost focus, as we invest in a better technology offering.

6. A great place to work

We cannot achieve any of our aims without our Police Bank team, which means the culture must be an ongoing focus in FY22. We want our team to be proud of what they do, to take ownership of their role and their customers, and to enjoy their work. We will continue to listen to our staff and ask them to speak up about where we can make improvements. Our staff is a reflection of our business, and we want them to be happy and to relish the important work they do.

Once again, if we achieve the above objectives in FY22, Police Bank will be well positioned to meet its members goals, to give back to the community through our charity work, and to retain profitability. Importantly, it will also be well-placed for future challenges and members' changing preferences, given our strong investment in technology.

Insights from our members

A reason to rejoin

NAME: Chris and Bec

AFFILIATION: NSW Police Force and Australian Federal Police

POLICE BANK LENDER: Franjka

YEARS WITH POLICE BANK: Four years; First joined in 1990; departed and re-joined 2017.

Chris is frank about the fact that Police Bank has fallen short of his expectations in the past. But after a long hiatus from the bank, he said it has now won back his trust, largely thanks to its dedicated staff and restored community focus.

The career cop first joined the bank when he started with the NSW Police Force in 1990.

However, after a couple of years, Chris found some of Police Bank's product offerings and service didn't match the rates set by other parts of the market. This prompted Chris to take his business elsewhere when he was offered a better deal by another lender.

"I was pretty vocal in the last couple of years [with Police Bank] about my experience and reasons for switching," he said.

Signs of change

Fast-forward a couple of decades, Chris and his wife Bec were lured back when Chris noticed the bank was making changes to show members and the Police community they were important. One of those gestures was gifts to serving Police officers, and the other was Police Bank's legacy work, which became more apparent when Chris saw the bank "popping up" at a range of regional events. Chris said it became evident the bank had changed direction and was trying to put cops first.

After Chris and Bec met lender Franjka, Chris said they'd found their primary reason to stick around. The pair have since transferred their multiple loans to Police Bank and cite Franjka as the deciding factor. While the products and offers have improved, Chris said it's the staff and member-centric focus that has ultimately won his family's business back.

"Franjka has taken the stress out of purchasing and selling a house numerous times, and I can contact her any time of the day and she always exceeds my expectations in reply," he said.

Chris said Franjka offers a type of customer service that is rare in the retail banking market.

"I seriously feel like I'm her only customer, given the level of support and attention she gives me."



From early rejection to a \$2.5 million home

NAME: Steve and Cate

AFFILIATION: NSW Police Force

BRANCH: Newcastle

POLICE BANK LENDER: Marnie

TIME WITH POLICE BANK: Almost 30 years

NSW Police veteran Steve first approached Police Bank almost 30 years ago after being turned down for a home loan by a major lender.

Steve had most of his money with one of the Big Four banks at the time but was told he didn't qualify for a mortgage to buy a property in Salamander Bay in the early 1990s. Steve said Police Bank gave him a different answer when he requested a loan, and the member-owned bank set him and his family on the path to owning several properties.

"Police Bank helped us out with our first loan, and we paid that off in 10 years," Steve said.

"When we went for our second loan, the response was basically 'yes, how much do you want and when do you want it?' It's been like that ever since."

The second loan Steve was referring to was for an investment property in Waratah, Newcastle.

An expanding portfolio

After selling their primary property, Steve and his wife Cate had their heart set on a bigger home in Newcastle but conceded the hot property market and the timing of an estate settlement didn't exactly make things easy for them.

However, after a bit of searching, things turned around for the them. "We found a home that we thought we may be able to afford because we had the majority of our money in the bank after our last sale," he said. "We got put onto Marnie and she worked her magic so that we can sell our [investment property] and pay off our main property loan [via a bridging loan] and we won't have any debt."

Steve said he is now waiting to move into his \$2.5 million dream home in Newcastle and is feeling confident and relieved after the lending arrangement Police Bank created for him and his family.

"Marnie told us to sit back, relax and wait for the keys," Steve said.



“Literally helped me to put my life back together”

NAME: Angie
AFFILIATION: NSW Police Force
BRANCH: Newcastle
POLICE BANK LENDER: Marnie
YEARS WITH POLICE BANK: 26+

Newcastle-based executive officer Angie was going through a difficult time when she first met Police Bank mobile lender Marnie.

Angie was at the end of a long-term relationship in which she was the primary earner and responsible for paying the bills. It meant her finances were complicated after the split. At the same time, she was driving an older car that was constantly breaking down and needed money to pay for household items that had been divided because of the separation.

“I’m also a single mum, so the pressure to manage everything is quite intense,” she said.

Angie came to the Newcastle Police Bank branch for help to sort out her money situation, which she said was adding to her worries.

“It was a scary time for me personally, my whole life had just been upturned.”

When Angie first met Marnie, she said she was treated with dignity and empathy when she explained her circumstances. She was also given options to make her finances a little bit smoother.

“Marnie was brilliant and supported me in so many ways. She literally helped me to put my life back together,” Angie said.

More than a bank

Marnie started by helping Angie put together a debt consolidation plan. She also sorted out a loan for a new car and the household bits and pieces Angie needed to replace.

Angie has now been with Police Bank for almost 26 years and the long-standing member has also added a mortgage to the mix in that time.

When asked about her views on Police Bank, Angie described it as “more than a bank”.

“[Police Bank] has become a huge source of support; so reliable and dependable,” she said. “They’ve always been there for me.”

Angie now describes Marnie as a friend and said she has recently referred another friend’s stepson to the lender after he failed to qualify for a loan elsewhere. When Angie asked her friend how it all went, the reply was one word: “brilliant”.

She was also given options to make her finances a little bit smoother.

Realising our dream

NAME: Teigan and Wynton
AFFILIATION: NSW Police Force
POLICE BANK LENDER: Sarah
BRANCH: Campbelltown and Narellan
YEARS WITH POLICE BANK: Almost 10 years

Like many young buyers, Teigan and Wynton have had a few setbacks on the road to securing their dream home.

The couple has been working closely with Sarah Lockett for the past six years, who they say has been a master navigator as they have tried to secure the right property at the right price. Unfortunately, things have fallen through multiple times for the pair – in no part due to their or Sarah’s perseverance.

“Sarah has always gone above and beyond, but up until recently things have fallen through on our end because of the house prices,” Teigan said.

There have been numerous situations where valuations and sale prices have defied expectations, Teigan said. One time, Teigan and Wynton came very close to securing a home, but the valuation fell \$120,000 short.

While it was a disappointing time, Teigan and Wynton say they never felt “stressed” throughout the process because of Sarah. “She has been extremely patient with us, and nothing is too much for her,” Teigan said.

A “yes” attitude and some good news

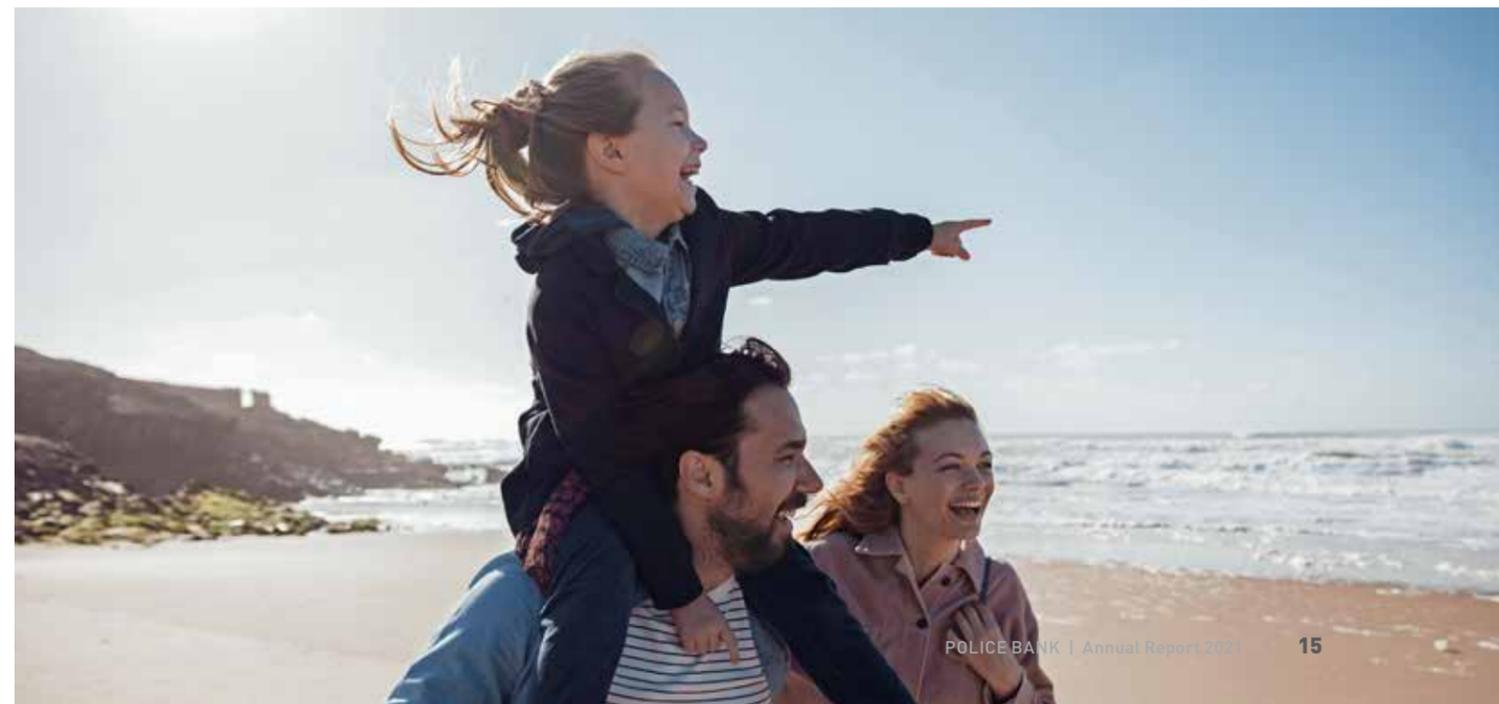
Things took a positive turn on Christmas Eve last year. Teigan and Wynton went to a property inspection and said they knew instantly they had found something special. Given the competitiveness of the current market and their recent history, they knew they had to move quickly so that the property wouldn’t get away.

“We put an offer in, which was approved, and [the sellers’ agent] called us and said they wanted to settle with three days’ notice. I called up Sarah and said, “I’m so sorry, I know it’s the holidays, but can we make it work?”

Teigan said she was delighted, but not surprised by the answer. “She said ‘yes’, without even looking at the details. She said, ‘I will make it work for you’”. For Teigan, the response was indicative of Sarah and Police Bank’s lending attitude.

Although it’s been a long wait for the couple, they said they are delighted to have their own home and that Sarah and Police Bank made the process “a breeze”.

“...they knew instantly they had found something special.”



How we've helped our communities

“
We contributed
15.0%
of our net profits
in organisations that
support our Members
”

Our charitable work:

Helping our community during a tough year

As a member-owned bank, we are an active participant in the community. As such, Police Bank gives back to its broader family in multiple ways. In 2020-21, we reinvested more than 10 per cent of our profits in the Police community.

Last year we continued to support our industry through our longstanding relationship with NSW Police Legacy, and extended our support to the AFP and Tasmanian arms of Legacy. Collectively, these organisations provide financial and emotional support to the families of Police Force members who we have lost on or off duty. They also do critical work in helping to preserve their memory. Sadly, we lost more members of our Police family last year and it's important their partners and children receive financial help in these tragic circumstances.

In 2020-21, Police Bank continued to support the NSW, Tasmanian and AFP Police Associations through partnership agreements and by giving bespoke help

to members in trouble or distress. For example, in some instances we helped members that were facing financial difficulty or illness, by providing financial support for much needed health or other equipment, and we've even spoken to other lenders to renegotiate members loan rates and terms to give them a reprieve. A member is a member, and we are here to help wherever we can.

Our other charitable work involved sponsoring Police activities and events to help lift community spirits in a tough year for the industry. We were proud to sponsor the NSW Police & Emergency Services Games, and support both the NSW Police Rugby League women's and men's competitions. Given the pressure COVID-19 and widespread lockdowns placed on our members, we saw community events as one way of helping members' mental health and connectivity. We plan to continue this pursuit in 2021-22 with further sponsorship of Police and Border Force social functions, sporting competitions and recreation days.



Photo credit: NSW Police Force

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 in 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 1998 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.



Robert Redfern

DEPUTY CHAIR
AUDIT COMMITTEE (CHAIR)
RISK COMMITTEE
GOVERNANCE & REMUNERATION COMMITTEE

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).



Col Dyson

DIRECTOR
RISK COMMITTEE (CHAIR)
AUDIT COMMITTEE

Col Dyson was appointed to the Police Bank Board in November 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.



Deputy Commissioner David Hudson

DIRECTOR
RISK COMMITTEE
GOVERNANCE & REMUNERATION COMMITTEE (CHAIR)

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.



Pat Gooley

DIRECTOR
GOVERNANCE & REMUNERATION COMMITTEE

Pat was appointed by the current Board as a Director in January 2021. Pat left the NSW Police Force in 2018 as an Inspector at Kings Cross LAC after 22 years and is currently the Secretary of the Police Association of NSW.

Pat has held various representative positions on behalf of police and their families, including;

- Vice President, Police Association of NSW 2010-2018
- Assistant Secretary, Legal Police Association of NSW 2106-18
- Trustee, NSW Police Provident Fund – (2017 – present)
- Ministerial Appointee, Member Police Superannuation Advisory Committee (PSAC) (2008 – current)
- Ministerial Appointee, Member Police Promotions Review Committee (2010-18)
- Executive Member, Unions NSW and Australian Council of Trade Unions

Pat was admitted as a Solicitor in NSW and the High Court of Australia in 2008. He completed the Harvard Trade Union Program at Harvard Law School in 2016. He holds a Diploma of Policing and has undertaken various Executive, Director and Management courses.

Pat is a member of Police Association of NSW, the Retired and Former Police Association of NSW, Law Society of NSW and the Institute of Company Directors.

Pat has been awarded the NSW Police Medal, the National Medal, the National Police Service Medal and the Humanitarian Overseas Service Medal.



Julie Osborne

DIRECTOR
AUDIT COMMITTEE
GOVERNANCE & REMUNERATION COMMITTEE

Julie Osborne was appointed as a Director of Police Bank in October 2020.

Julie is an experienced Non-Executive Director with extensive experience across a range of sectors including financial services, insurance and not-for-profit.

Currently, Julie is Chair of the Boards of Assetinsure Pty Limited and Assetinsure Holdings Pty Limited. She is also a Non-Executive Director on the Boards of Auto & General Insurance Company Limited, NSW Crown Holiday Parks Land Manager and the Woolcock Institute of Medical Research.

Julie is a past member of the Summerland Financial Services Limited Board and the Starlight Children's Foundation NSW Advisory Board.

In her executive career, Julie was an Executive Director at Westpac Banking Corporation where she led the Structured Finance business within the Treasury Division and served on various Westpac Group subsidiary companies in Australia and the United States. She has also consulted to the Audit, Assurance and Risk Consulting Division of KPMG regarding their clients and markets initiatives in the financial services sector.

Julie is a Graduate of the Australian Institute of Company Directors and holds a Master of Laws from the University of Sydney. In addition, she has completed a Bachelor of Laws and a Bachelor of Economics also from the University of Sydney.



Naguib ("Nick") Kaldas,

DIRECTOR (APPOINTED 26 NOVEMBER 2020)
RISK COMMITTEE
GOVERNANCE & REMUNERATION COMMITTEE

Naguib 'Nick' Kaldas was appointed to Police Bank in November 2020 and has more than 35 years of policing experience, including almost a decade as the Deputy Commissioner of Police where he commanded 14,000 staff and managed a budget of \$2 billion.

Nick has global experience having been Director of Internal Oversight Services for the United Nations Relief and Works Agency (UNRWA) between 2016-2018, where he directed four divisions: Investigations, Audits, Ethics, and Evaluation. He managed some 35,000 staff in Syria, Lebanon, Jordan, Gaza and the West Bank.

Nick was also appointed by the Federal Government to head up the Royal Commission into Defence and Veterans Suicide.

Nick was also appointed to lead the Joint Investigation Mechanism (United Nations/OPCW) into the use of chemical weapons in the Syrian conflict in 2016 and he led the historic United Nations investigation into the assassination of Lebanese Prime Minister Hariri and 21 other murders.

Nick is an advisory board member to Holdmark Construction and MultiCultural NSW and a Senior Fellow at the Australian Strategic Policy Institute. He is a member of board of trustees, for the Coptic Orthodox Diocese of Sydney and Affiliated Regions, and a former member of board of directors of the Police, Citizens & Youth Clubs NSW (PCYC).



Sharon Waterhouse

DIRECTOR
AUDIT COMMITTEE
RISK COMMITTEE

Sharon Waterhouse was appointed as a Director of Police Bank in 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



Commissioner Michael Fuller

DIRECTOR (29 AUGUST 2019 – 29 JANUARY 2021)
GOVERNANCE & REMUNERATION COMMITTEE

Commissioner Fuller served as a Director of Police Bank from August 2019 until January 2021. 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.



Raff Del Vecchio

DIRECTOR (24 APRIL 2008 – 26 NOVEMBER 2020)
DEPUTY CHAIR
GOVERNANCE & REMUNERATION COMMITTEE (CHAIR)
AUDIT COMMITTEE

Raff Del Vecchio served as Deputy Chair from May to November 2020 and was a Director from April 2008 until November 2020.

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.



Greg McKenna

CHIEF EXECUTIVE OFFICER

Greg McKenna was appointed as Chief Executive Officer of Police Bank in 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 over 35 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 also a contributing editor to *Business Insider Australia*.

He 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.



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.



Denis Fuelling

CHIEF PEOPLE OFFICER

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

CHIEF RISK OFFICER

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 A USPAC 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.



Brian Pereira

CHIEF DIGITAL AND OPERATIONS OFFICER

Brian was appointed to the role of Chief Digital Officer and Operations Officer in July 2021. He is the executive in charge of technology, operations and the customer and delivery teams across the bank with the objective to digitally transform and automate the banks capability to deliver unique member experiences supported by a highly efficient back office and operations capability that is nimble.

Brian has spent his career in financial services, technology, and software development across the globe through roles with Deutsche Bank and IBM before becoming an entrepreneur. His last fintech business currently services and advises one of Australia's largest banks.

Brian has done his undergraduate work in accounting and has a master's degree in environmental engineering as well an AMP from Harvard Business School. He is a graduate of the Australian institute of Company Directors and has volunteered his time as the chair of Heartkids Australia, and Phoenix House Youth Services. He is currently a Volunteer Director of the Chrysalis Programme, a social responsibility start-up helping juvenile offenders find productive work and life skills as they transition into our communities.

2021 Annual Financial Report

Police Bank Limited & its Controlled Entities

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Directors' Report

Year ended 30 June 2021

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 2021. 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 \$4.2 million for the year ended 30 June 2021. This result is a significant uplift year on year in both NPAT and underlying profit terms. This result reflects the Board's strategy and decisions to continue to invest in bolstering our customer service, improving the digital experience, and simplifying our products for different life stages. This investment in the Bank included \$0.8m (0.5m after tax) in additional staff employed to support the transformation of the bank as well as some flow on costs in relation to the previous year's decision to the closure of some branches.

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

	2021	2020
	\$m	\$m
Reconciliation		
Net profit after tax per financial statements	4.2	0.4
Transformation costs	0.5	-
One-off costs relating to closure of branches	0.3	0.6
Fixed asset write-off	-	0.6
Employee termination payments	0.2	1.5
Outplacement costs	-	0.1
Underlying net profit after tax	5.2	3.2

Underlying net profit after tax

Underlying Net Profit After Tax (NPAT) increased 62.5% from \$3.2 million in 2020 to \$5.2 million for the year ended 30 June 2021.

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 have been reductions in the operating model cost base across our operations following the implementation of the Bank's new strategy.

Events subsequent to reporting date

The Directors are not aware of any matter or circumstances occurring since 30 June 2021 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

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

Colin Dyson

Sharon Waterhouse

Nick Kaldas (appointed in 26 November 2020)

Raff Del Vecchio (until 26 November 2020)

Robert Redfern

David Hudson

Julie Osborne (appointed 7 October 2020)

Pat Gooley (appointed 30 January 2021)

Michael Fuller (resigned on 29 January 2021)

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 MEETING		BOARD AUDIT COMMITTEE		BOARD RISK COMMITTEE		BOARD GOVERNANCE & REMUNERATION COMMITTEE		NOMINATIONS COMMITTEE	
	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend
Raff Del Vecchio	6	6	2	2			1	1		
Colin Dyson	13	13	3	3	3	3				
Michael Fuller	2	6					1	2		
Patrick Gooley	6	6					2	2		
David Hudson	13	13			1	1	5	5		
Nick Kaldas	7	7			1	1	3	3		
Julie Osborne	10	10	2	2	1	-	4	4		
Robert Redfern	13	13	3	3	3	3	4	3		
Peter Remfrey	13	13	3	3	3	3	4	5	2	2
Sharon Waterhouse	13	13	3	3	3	3	1	-		

Michael Fuller was granted a leave of absence from the 30 July, 22 and 29 October, 26 November and 17 December 2020 Board meetings. Peter Remfrey was granted a leave of absence for the Board Governance & Remuneration Committee meeting held on 13 August 2020.

Other disclosures

Dividends

Dividends paid or declared by the Consolidated Entity since the end of the previous financial year was \$Nil (2020: \$835,000), paid to the shareholders of Chelsea Wealth Management Pty Limited of which \$Nil (2020: \$167,000) was paid to an external non-controlling interest. Police Bank Limited is the majority shareholder of Chelsea Wealth Management Pty Limited.

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

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 7 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
27 October 2021

Robert Redfern
Deputy Chair

Sydney
27 October 2021

Auditor's Independence Declaration

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000

The Directors
Police Bank Limited
25 Pelican Street
Surry Hills
Sydney NSW 2000

27 October 2021

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 the Directors 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 2021, 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

Mark Lumsden
Partner
Chartered Accountants
27 October 2021

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2021

	Note	CONSOLIDATED		POLICE BANK LIMITED	
		2021 \$m	2020 \$m	2021 \$m	2020 \$m
Interest revenue	8	60.0	71.7	60.0	71.7
Interest expense	9	13.8	25.7	13.8	25.6
Net interest revenue		46.2	46.0	46.2	46.1
Other revenue	10	7.7	9.0	4.7	6.5
Total net operating revenue		53.9	55.0	50.9	52.6
Impairment losses on loans and advances	6	0.2	2.8	0.2	2.8
General administration expenses					
Personnel expenses ⁽¹⁾	11	24.1	28.4	22.3	26.8
Transaction expenses		6.7	5.7	6.7	5.7
IT expenses		4.4	4.1	4.4	4.1
Occupancy expenses	11	1.2	1.0	1.2	1.0
Customer marketing expenses		1.7	1.1	1.7	1.1
Printing, postage and stationary		0.7	1.1	0.6	1.1
Other administration expenses	11	5.6	5.6	5.1	5.4
Depreciation and amortisation	11	3.0	3.6	2.7	2.9
Impairment - right-of-use assets ⁽²⁾		-	0.8	-	0.8
Total general administration expenses		47.4	51.4	44.7	48.9
Profit before income tax		6.3	0.8	6.0	0.9
Income tax expense	12	2.1	0.4	1.9	-
Net profit for the year		4.2	0.4	4.1	0.9
Other comprehensive income					
<i>Items that may be reclassified to profit or loss, net of tax</i>					
Movement in reserve for equity instruments FVOCI		0.7	1.2	0.7	1.2
Total other comprehensive income		0.7	1.2	0.7	1.2
Total comprehensive income for the year		4.9	1.6	4.8	2.1
Total comprehensive income attributable to:					
Non-controlling interests		0.0	0.1	-	-
Members of the parent entity		4.9	1.5	4.8	2.1

⁽¹⁾ 2020 includes employee termination payments of \$2.2 million.

⁽²⁾ 2020 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 2021

	Note	CONSOLIDATED		POLICE BANK LIMITED	
		2021	2020	2021	2020
		\$m	\$m	\$m	\$m
Assets					
Cash and liquid assets	3	101.1	59.1	63.9	44.4
Receivables	17	2.6	2.7	2.2	2.7
Current tax asset		-	0.4	-	0.4
Net deferred tax assets	12	0.7	-	0.7	-
Other assets		3.0	2.3	3.0	2.3
Investment securities	4	367.4	365.1	367.4	365.1
Loans and advances	5	1,760.9	1,686.6	1,760.9	1,686.6
Investment at FVOCI	7	10.3	9.3	10.3	9.3
Investment in subsidiaries		-	-	41.8	19.4
Property, plant and equipment and right-of-use assets	18	20.4	23.7	19.9	23.1
Intangible assets	19	4.2	5.0	0.4	0.9
Total assets		2,270.6	2,154.2	2,270.4	2,154.2
Liabilities					
Deposits	1	1,885.2	1,793.6	1,885.2	1,793.6
Borrowings	2	150.0	139.8	150.0	139.8
Creditors and other liabilities	20	21.0	11.0	20.3	10.6
Lease liabilities		4.0	4.9	3.5	4.3
Net deferred tax liabilities	12	-	0.3	-	0.3
Total liabilities		2,060.2	1,949.6	2,059.0	1,948.6
Net assets		210.4	204.6	211.4	205.6
Equity					
Share capital		0.5	0.5	0.5	0.5
Reserves	16	63.0	61.4	63.0	61.4
Retained earnings		146.1	141.9	147.9	143.7
Equity attributable to Police Bank Limited		209.6	203.8	211.4	205.6
Non-controlling interest		0.8	0.8	-	-
Total equity		210.4	204.6	210.4	205.6

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

Statement of Changes in Equity

Year ended 30 June 2021

CONSOLIDATED ENTITY

	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
	\$m	\$m	\$m	\$m	\$m	\$m
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
At 1 July 2020	0.5	61.4	141.9	203.8	0.8	204.6
Profit for the year	-	-	4.2	4.2	-	4.2
Other comprehensive income	-	0.7	-	0.7	-	0.7
Total comprehensive income	-	0.7	4.2	4.9	-	4.9
Profit attributable to non-controlling interest	-	-	-	-	-	-
Dividends paid						
Transfer to general reserve	-	-	-	-	-	-
Other	-	0.9	-	0.9	-	0.9
At 30 June 2021	0.5	63.0	146.1	209.6	0.8	210.4

POLICE BANK LIMITED

	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
	\$m	\$m	\$m	\$m	\$m	\$m
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
At 1 July 2020	0.5	61.4	143.7	205.6	-	205.6
Profit for the year	-	-	4.2	4.2	-	4.2
Other comprehensive income	-	0.7	-	0.7	-	0.7
Total comprehensive income	-	0.7	4.2	4.9	-	4.9
Transfer to general reserve	-	-	-	-	-	-
Redeemed capital	-	-	-	-	-	-
Other	-	0.9	-	0.9	-	0.9
At 30 June 2021	0.5	63.0	147.9	211.4	-	211.4

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

Statement of Cash Flows

Year ended 30 June 2021

	Note	CONSOLIDATED		POLICE BANK LIMITED	
		2021	2020	2021	2020
		\$m	\$m	\$m	\$m
Cash flows from operating activities					
Interest received		60.5	72.0	60.9	75.9
Other income received		7.6	7.9	4.8	4.7
Dividends received		-	0.4	-	1.1
Interest paid		(13.7)	(28.8)	(13.7)	(28.7)
Payments to suppliers and employees		(33.7)	(46.3)	(32.0)	(44.3)
Income tax paid		(3.1)	(0.7)	(2.8)	(0.4)
Net increase in loans and advances		(78.4)	(64.0)	(78.4)	(64.0)
Net increase in deposits		93.4	99.0	93.4	99.0
Net cash inflows from operating activities	24	32.6	39.5	32.2	43.3
Cash flows from investing activities					
Redemption of investment securities		727.3	721.4	727.3	721.4
Proceeds from disposal of property, plant and equipment		-	-	-	-
Purchase of investment securities		(729.9)	(783.2)	(752.2)	(783.2)
Payments for property, plant and equipment		(0.1)	(0.3)	(0.1)	(0.3)
Payments for intangible and other assets		(1.6)	(1.5)	(1.6)	(1.5)
Net cash outflows from investing activities		(4.3)	(63.6)	(26.6)	(63.6)
Cash flows from financing activities					
Net increase in borrowings		14.6	35.9	14.6	35.9
Principal portion of lease payments		(0.9)	(1.2)	(0.7)	(1.2)
Dividends paid		-	(0.2)	-	-
Net cash inflows from financing activities		13.7	34.5	13.9	34.7
Net increase/(decrease) in cash and liquid assets		42.0	10.4	19.5	14.4
Cash and liquid assets at the beginning of the year		59.1	48.7	44.4	30.0
Cash and liquid assets at the end of the year	3	101.1	59.1	63.9	44.4

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

Notes to the Financial Statements

Year ended 30 June 2021

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
Other investments – Cuscal shares	Fair value	7
Deferred tax assets	Recoverability	12
Intangible assets	Impairment trigger and recoverable amounts	19
Lease liabilities	Lease term and incremental borrowing rate	28

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Call deposits	1,214.1	1,054.9	1,214.1	1,054.9
Term deposits	668.6	734.4	668.6	734.4
Interest payable on deposit	2.2	4.0	2.2	4.0
Withdrawable shares	0.3	0.3	0.3	0.3
Total deposits	1,885.2	1,793.6	1,885.2	1,793.6

Deposits are initially recognised at fair value. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost and of allocating interest over the relevant period.

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.

2. Borrowings

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Negotiable Certificates of Deposit	67.2	70.8	67.2	70.8
Medium Term Notes	-	20.0	-	20.0
RBA Term Funding Facility	82.8	49.0	82.8	49.0
Total borrowings	150.0	139.8	150.0	139.8

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.

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Cash on hand	1.8	1.6	0.9	1.2
Cash at bank	8.9	13.4	8.9	13.1
Deposits at call	54.0	30.0	54.0	30.0
Security deposits	0.1	0.1	0.1	0.1
Restricted cash	36.3	14.0	-	-
Total cash and liquid assets	101.1	59.1	63.9	44.4

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 trust.

4. Investment securities

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Term deposits	20.8	52.8	20.8	52.8
Interest receivable on deposits with other financial institutions	0.4	0.8	0.4	0.8
Bank bills and certificates of deposit	103.9	140.5	103.9	140.5
Floating rate notes	242.3	171.0	242.3	171.0
Total investment securities	367.4	365.1	367.4	365.1

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 held to collect 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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Overdrafts and revolving credit loans	27.0	31.1	27.0	31.1
Term loans	1,740.8	1,662.5	1,740.8	1,662.5
Gross loans and advances	1,767.8	1,693.6	1,767.8	1,693.6
Provision for impaired loans	(4.8)	(5.0)	(4.8)	(5.0)
Unamortised loan origination fees	(2.1)	(2.0)	(2.1)	(2.0)
Net loans and advances	1,760.9	1,686.6	1,760.9	1,686.6

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 expected 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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Secured by mortgage against real estate	1,669.3	1,580.6	1,669.3	1,580.6
Secured - other	42.9	51.5	42.9	51.5
Unsecured	55.6	61.5	55.6	61.5
Total	1,767.8	1,693.6	1,767.8	1,693.6

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	
	2021	2020	2021	2020
	\$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%	1,296.7	1,238.4	1,296.7	1,238.4
Loan to valuation ratio of more than 80% but mortgage insured	272.6	281.9	272.6	281.9
Loan to valuation ratio of more than 80% and not mortgage insured	19.7	38.3	19.7	38.3
First Home Buyer Govt guaranteed (FHLDS)	80.3	22.0	80.3	22.0
Total	1,669.3	1,580.6	1,669.3	1,580.6

Concentration of loans by purpose:

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Home loans	1,669.3	1,580.6	1,669.3	1,580.6
Personal loans	74.1	83.8	74.1	83.8
Credit cards	15.4	17.0	15.4	17.0
Overdrafts	5.8	6.1	5.8	6.1
Finance leases	2.4	4.9	2.4	4.9
Total to households	1,767.0	1,692.4	1,767.0	1,692.4
Corporate borrowers	0.8	1.2	0.8	1.2
Total loans and advances	1,767.8	1,693.6	1,767.8	1,693.6

Geographical concentration (excludes finance leases):

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
New South Wales	1,399.7	1,255.0	1,399.7	1,255.0
Australian Capital Territory	190.4	270.3	190.4	270.3
Tasmania	85.2	91.2	85.2	91.2
Other States	90.1	72.2	90.1	72.2
Total	1,765.4	1,688.7	1,765.4	1,688.7

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 substantially 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 2021 was \$386.4 million (2020: \$160.3 million). The value of associated reserve as at 30 June 2021 was \$36.3 million (2020: \$14.4 million).

(ii.) Securitisation program

The Bank did not participate in securitisation other than internal securitisation in 2021.

The Bank no longer uses this program.

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Impairment charge	(0.3)	2.1	(0.3)	2.1
Bad debts written off	0.5	0.7	0.5	0.7
Impairment losses on loans and advances	0.2	2.8	0.2	2.8

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			CONSOLIDATED ENTITY & POLICE BANK LIMITED		
	2021			2020		
	Gross carrying value	ECL allowance	Carrying value	Gross carrying value	ECL allowance	Carrying value
	\$m	\$m	\$m	\$m	\$m	\$m
Home loans	1,669.3	2.5	1,666.8	1,580.6	2.4	1,578.2
Personal loans	74.1	1.8	72.3	83.8	2.1	81.7
Credit cards	15.4	0.3	15.1	17.0	0.4	16.6
Overdrafts	5.8	0.2	5.6	6.1	0.1	6.0
Finance leases	2.4	-	2.4	4.9	-	4.9
Total to households	1,767.0	4.8	1,762.2	1,692.4	5.0	1,687.4
Corporate borrowers	0.8	-	0.8	1.2	-	1.2
Total	1,767.8	4.8	1,763.0	1,693.6	5.0	1,688.6

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					CONSOLIDATED ENTITY & POLICE BANK LIMITED				
	2021					2020				
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Specific provision ⁽¹⁾	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Specific provision ⁽¹⁾	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Home loans	0.5	0.1	0.4	1.5	2.5	0.4	0.1	0.5	1.4	2.4
Personal loans	0.3	0.1	0.7	0.8	1.8	0.3	0.1	1.0	0.8	2.2
Credit cards	0.2	0.0	0.1	0.0	0.3	0.1	0.0	0.2	-	0.3
Overdrafts	0.1	0.1	0.0	0.0	0.2	-	0.0	0.1	-	0.1
Total to households	1.1	0.2	1.2	2.4	4.8	0.8	0.2	1.8	2.2	5.0
Corporate borrowers	-	-	-	-	-	-	-	-	-	-
Total	1.1	0.2	1.2	2.4	4.8	0.8	0.2	1.8	2.2	5.0

⁽¹⁾ The specific provision is for COVID -19 hardships and macro-economic overlay.

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

PROVISION FOR IMPAIRMENT BY STAGE

	CONSOLIDATED ENTITY & POLICE BANK LIMITED							
	GROSS LOANS	STAGE 1 X ECL PROV.	GROSS LOANS	STAGE 2 X ECL PROV.	GROSS LOANS	STAGE 3 X ECL PROV.	GROSS LOANS	TOTAL ECL PROV.
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance as at 30-June-2019	1,620.3	0.8	6.6	0.5	3.7	1.4	1,630.6	2.8
Transfers to/(from)								
Stage 1	(17.1)	(0.8)	11.9	0.6	5.2	0.2	-	-
Stage 2	2.8	0.1	(4.8)	(0.2)	2.0	0.1	-	-
Stage 3	0.4	0.0	0.0	0.0	(0.5)	(0.0)	-	-
Net re-measurement on transfers between stages	-	(1.0)	-	(0.2)	-	1.2	-	-
Net assets originated	62.1	2.9	2.4	0.1	(0.7)	(0.0)	63.8	3.0
Movements due to risk parameters & other changes								-
Loan impairment expense for the year		1.3		0.2		1.5		3.0
Write-offs	-	-	-	-	(0.7)	(0.7)	(0.7)	(0.7)
Closing Balance 30-Jun-2020	1,668.6	2.1	16.1	0.7	9.0	2.2	1,693.7	5.0
Transfers to/(from)								
Stage 1	(3.4)	(0.0)	1.6	0.0	1.8	0.0	-	-
Stage 2	10.3	0.0	(11.1)	(0.0)	0.8	0.0	-	-
Stage 3	3.7	0.0	0.3	0.0	(4.0)	(0.0)	-	-
Net re-measurement on transfers between stages	-	0.0	-	0.1	-	(0.1)	-	-
Net assets originated	81.3	0.3	(4.7)	(0.0)	(1.9)	(0.0)	74.7	0.3
Movements due to risk parameters & other changes		-		-		-		-
Loan impairment expense for the year		0.4		0.0		(0.1)		0.3
Write-offs	-	-	-	-	(0.5)	(0.5)	(0.5)	(0.5)
Closing Balance 30-Jun-2021	1,760.5	2.5	2.1	0.7	5.3	1.6	1,767.9	4.8

Loans identified for specific provision are included in the stage at which they were at point of deferral.

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.

STAGE	MEASUREMENT BASIS	PRINCIPLE
Stage 1	Financial instruments that are not credit-impaired on initial recognition are classified in this stage. 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. 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. A lifetime collective provision is allocated for these financial instruments.	90 or more days past due

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.

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 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 outlook 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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Shares in Cuscal Limited	10.3	9.3	10.3	9.3
Total investment at FVOCI	10.3	9.3	10.3	9.3

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Cash deposits	0.1	0.0	0.1	0.0
Deposits with other financial institutions	2.3	5.6	2.3	5.6
Loans and advances	57.6	66.1	57.6	66.1
Total interest revenue	60.0	71.7	60.0	71.7

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 expected life of the loan.

9. Interest expense

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Member deposits	13.2	24.3	13.2	24.3
Borrowings	0.4	1.2	0.4	1.2
Lease liabilities	0.2	0.2	0.2	0.1
Total interest expense	13.8	25.7	13.8	25.6

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.

10. Other revenue

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Loan fee income	1.4	1.1	1.4	1.1
Other fee income	2.0	2.5	2.0	2.5
Insurance commissions	0.6	1.1	0.6	1.1
Other commissions	3.4	3.6	0.4	0.4
Dividends	0.1	0.4	0.1	1.1
Other	0.2	0.3	0.2	0.3
Total other revenue	7.7	9.0	4.7	6.5

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. Fee income is disaggregated when relevant to reflect the appropriate categories depending on the nature of the income and is recognised either over time or as a point in time where relevant.

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Personnel expenses				
Salary and salary related expenses	23.2	26.7	21.5	25.2
Other employment expenses	0.9	1.7	0.8	1.6
Total personnel expenses	24.1	28.4	22.3	26.8
Occupancy expenses				
Operating lease outgoings	0.5	0.1	0.5	0.1
Other occupancy expenses	0.7	0.9	0.7	0.9
Total occupancy expenses	1.2	1.0	1.2	1.0
Other administration expenses				
Professional fees	2.5	1.6	2.3	1.6
Sundry office expenses	0.2	1.0	0.2	1.0
Travel and entertainment	0.1	0.4	0.1	0.4
Telephone	0.5	0.6	0.5	0.6
Insurance	0.6	0.5	0.6	0.5
Other	1.7	1.5	1.4	1.3
Total other administration expenses	5.6	5.6	5.1	5.4
Depreciation and amortisation				
Buildings	0.3	0.3	0.3	0.3
Plant and equipment	0.6	0.5	0.6	0.5
Leasehold improvements	0.3	0.6	0.3	0.6
Right-of-use property assets	0.6	1.0	0.6	0.9
Right-of-use motor vehicle assets	0.2	0.2	0.2	0.2
Software	0.7	0.4	0.7	0.4
Customer lists	0.3	0.6	-	-
Total depreciation and amortisation	3.0	3.6	2.7	2.9

12. Taxation

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.

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Profit before income tax	6.3	0.8	6.0	0.9
Income tax at 30%	2.1	0.2	1.9	0.3

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

Non-deductible expenses	-	-	-	0.1
Amortisation	-	0.2	-	-
Imputation credits	-	0.1	-	0.1
Rebate on fully franked dividends	-	(0.2)	-	(0.5)
Under provision of income tax	-	0.1	-	-
Income tax expense	2.1	0.4	1.9	-

Income tax expense comprises:

Current income tax	(0.7)	1.2	(0.5)	0.9
Decrease/(increase) in deferred tax assets	(1.2)	(0.6)	(1.2)	(0.6)
(Decrease)/increase in deferred tax liabilities	(0.2)	(0.3)	(0.2)	(0.3)
Under provision of income tax	-	0.1	-	-
Income tax expense	(2.1)	0.4	(1.9)	0.0

Franking credits

Franking credits	77.4	74.8	77.2	74.6
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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.

Deferred income tax assets and liabilities

Deferred tax assets

The balance is comprised of temporary differences attributable to:

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Provision for impaired loans	2.4	1.5	2.4	1.5
Provision for employee entitlements	0.8	0.7	0.8	0.7
Lease impairment charge	0.1	0.2	0.1	0.2
Other	0.5	0.2	0.5	0.2
Total deferred tax assets	3.8	2.6	3.8	2.6
Set-off of DTAs and DTLs	(3.1)	(2.6)	(3.1)	(2.6)
Net deferred tax assets	0.7	-	0.7	-

Deferred tax liabilities

The balance is comprised of temporary differences attributable to:

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Property, plant and equipment	0.6	0.6	0.6	0.6
Finance leases	0.2	0.4	0.2	0.4
Fair value investments	1.9	1.6	1.9	1.6
Other	0.4	0.3	0.4	0.3
Total deferred tax liabilities	3.1	2.9	3.1	2.9
Set-off of DTAs and DTLs	(3.1)	(2.6)	(3.1)	(2.6)
Net deferred tax liabilities	-	0.3	-	0.3

Movements

Opening balance of net DTA/(DTL)	(0.3)	(0.6)	(0.3)	(0.6)
Recognised in profit or loss	1.5	0.8	1.5	0.8
Recognised in other comprehensive income	(0.5)	(0.5)	(0.5)	(0.5)
Closing balance of net DTA/(DTL)	0.7	(0.3)	0.7	(0.3)

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

a. 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 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 exposures, and ensuring that the Treasury and Finance functions adhere to exposure limits as outlined in the policies for interest rate and liquidity risk. The daily scrutiny of market risk reports is designed to ensure daily operations are in line with all required prudential standards and bank operating policies and 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			CONSOLIDATED ENTITY & POLICE BANK LIMITED		
	2021			2020		
	Carrying value	Undrawn facilities	Maximum exposure	Carrying value	Undrawn facilities	Maximum exposure
	\$m	\$m	\$m	\$m	\$m	\$m
Home loans	1,669.3	82.3	1,751.6	1,580.7	75.7	1,656.4
Personal loans	74.1	1	75.1	83.8	0.7	84.5
Credit cards	15.5	28.7	44.2	17	30.2	47.2
Overdrafts	5.7	21.5	27.2	6.1	21.8	27.9
Finance leases	2.4	-	2.4	4.9	-	4.9
Total to households	1,767.1	133.5	1,900.5	1,692.5	128.4	1,820.9
Corporate borrowers	0.8	-	0.8	1.2	-	1.2
Total loans and advances	1,767.9	133.5	1,901.3	1,693.7	128.4	1,822.1

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.

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 policies;
- » documented processes for approving and managing lending based on delegations; and
- » a series of management reports detailing industry, geographic, and Loan to Value Ratio (LVR) concentrations, along with monitoring non-performing lending.

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

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 APG 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			CONSOLIDATED ENTITY		
	2021			2020		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
	\$m	\$m	\$m	\$m	\$m	\$m
Investments with:						
ADIs rated A-1+ to A-1 (short-term)	98.2	-	-	65.4	-	-
ADIs rated A-2+, P-2 or F-2 (short-term)	66	-	-	71.9	-	-
ADIs rated A-3 (short-term)	5.0	-	-	5.0	-	-
ADIs rated AA+ to AAA- (long-term)	138.1	-	-	107.9	-	-
ADIs rated A+ to A (long-term)	37.2	-	-	54.5	-	-
ADIs rated BBB+ to Baa2+ (long-term)	103.9	-	-	108	-	-
ADIs unrated	0.0	-	-	9.0	-	-
Total	448.4	-	-	421.7	-	-

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 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

2021

	Floating rate	>1-3 months	>3-12 months	>1-5 years	Non-interest bearing	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Cash and liquid assets	99.3	-	-	-	1.8	101.1
Receivables	-	-	-	-	2.6	2.6
Investment securities	-	345.4	22	-	-	367.4
Loans and advances	1,605.8	39.3	23.4	92.4	-	1,760.9
Investment at FVOCI	-	-	-	-	10.3	10.3
Total financial assets	1,705.1	384.7	45.4	92.4	14.7	2,242.3
Creditors, interest payable on deposits	-	-	-	-	20.6	20.6
Deposits from members - at call	1,214.1	-	-	-	-	1,214.1
Deposits from members - fixed term	-	131.3	405.3	132	-	668.6
Negotiable Certificates of Deposit	-	67.2	-	-	-	67.2
Medium Term Notes	-	0.0	-	-	-	-
RBA Term Funding Facility	-	-	-	82.8	-	82.8
Withdrawable shares	-	-	-	-	0.3	0.3
Financial liabilities - on balance sheet	1,214.1	198.5	405.3	214.8	20.9	2,053.6
Undrawn loan commitments	133.6	-	-	-	-	133.6
Total financial liabilities	1,347.7	198.5	405.3	214.8	20.9	2,187.2

CONSOLIDATED ENTITY

2020

	Floating rate	>1-3 months	>3-12 months	>1-5 years	Non-interest bearing	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Cash and liquid assets	57.5	-	-	-	1.6	59.1
Receivables	-	-	-	-	3.5	3.5
Investment securities	-	352.5	11.9	-	-	364.4
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	380.8	223.6	302.5	14.4	2,122.9
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	0	-	-	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

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

The Bank adopted the Change in Economic Value of Equity (Δ EVE) and the Change in Net Interest Income (Δ NII) as its primary IRRBB metrics in October 2020. The change in Economic Value of Equity (Δ EVE) focuses on the risk to net worth (Police Bank's Capital) arising from all repricing mismatches and other interest rate sensitive positions over the long term. The change in Net Interest Income (Δ NII) measures the changes in Net Interest Income (earnings) and focuses on the impact of changes in interest rates on earnings in the near term.

(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 2021 there were no notional principal amounts of the interest rate swap contracts (2020: nil). There were no hedging instruments as at 30 June 2021 or 30 June 2020. 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.

As above, in October 2020 Value at Risk (VAR) was substituted for the Change in the Economic Value of Equity (Δ EVE) and the change in Net Interest Income (Δ NII), subjected to a 100bp parallel shock. NII is a simple approximation of expected changes in earnings levels based

on the same notional repricing cash flow data as used for the EVE approach and can be interpreted as a continuation of the EVE method for the short term. In this approach, the accumulated effect of an interest rate shock on net interest income (NII) up to a time horizon of one year is calculated and reported as a change to the base case (Δ NII).

Based on the calculations as at 30 June 2021, the change to the Economic Value of Equity from a 100bp shock (Δ EVE) is 0.79% of capital. The Δ NII impact of a shock is a \$3.6m change in net interest income.

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.

As per (iii) Management of Interest Rate Risk in the Banking Book above, the Bank adopted Δ EVE and Δ NII as its primary IRRBB metrics in October 2020. These replaced VaR and mismatch reporting.

The Bank adopted a Zero Floor rate for Savings and Term Deposit products in its IRRBB assumptions

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 (MLH) approach under Prudential Standard APS 210 and as such is not required to adopt the Liquidity Coverage Ratio (LCR) or Net Stable Funding Ratio (NSFR) 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						
						2021
	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	101.1	-	-	-	101.1	101.1
Receivables	2.6	-	-	-	2.6	2.6
Investment securities	105.8	50.0	211.6	-	367.4	367.4
Loans and advances	35.8	23.4	92.4	1,609.3	1,760.9	1,760.9
Investment at FVOCI	-	-	-	10.3	10.3	10.3
Total financial assets	245.3	73.4	304.0	1,619.6	2,242.3	2,242.3
Trade creditors and accruals	20.6	-	-	-	20.6	20.6
Lease liabilities	0.3	0.8	2.9	-	4.0	4.0
Deposits from members - at call	1,214.1	-	-	-	1,214.1	1,214.1
Deposits from members - fixed term	131.3	405.3	132.0	-	668.6	668.6
Negotiable Certificates of Deposit	67.2	-	-	-	67.2	67.2
Medium Term Notes	-	-	-	-	-	-
RBA Term Funding Facility	-	-	82.8	-	82.8	82.8
On balance sheet financial liabilities	1,433.5	406.1	217.7	-	2,057.3	2,057.3
Undrawn loan commitments	133.6	-	-	-	133.6	-
Total financial liabilities	1,567.1	406.1	217.7	-	2,190.9	2,057.3

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	0.0	364.3	364.3
Loans and advances	55.6	11.6	104.0	1,515.3	1,686.5	1,686.6
Investment at FVOCI	-	-	-	9.3	9.3	9.3
Total financial assets	297.8	71.4	228.9	1,524.6	2,122.8	2,122.8
Trade creditors and accruals	8.5	-	-	-	8.5	8.5
Interest payable on deposits	4	-	-	-	4.0	4.0
Lease liabilities	0.3	0.8	3.2	0.6	4.9	4.9
Deposits from members - at call	1054.9	-	-	-	1054.9	1054.9
Deposits from members - fixed term	285.3	361.6	87.6	-	734.5	734.5
Negotiable Certificates of Deposit	70.8	0	-	-	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	0.60	1,946.6	1,946.6
Undrawn loan commitments	128.3	-	-	-	128.3	-
Total financial liabilities	1,572.1	362.4	139.8	0.60	2,074.9	1,946.6

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 Enterprise wide Risk Management Policy which operationalises the Risk Management framework, and 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 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 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.

ETOS Limited

ETOS provides treasury settlements services to the Bank.

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 APS112. 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.

	2021	2020
	\$m	\$m
Tier 1		
Tier 1 common equity	206.0	202.8
Less: prescribed deductions	(14.3)	(15.5)
Net tier 1 capital	191.7	187.3
Tier 2		
Reserve for credit losses ⁽¹⁾	7.0	6.6
Tier 2 capital	7.0	6.6
Total capital	198.7	193.9

⁽¹⁾ The APRA definition of reserve for credit losses currently differs from the Accounting Standards. The 2020 capitals were reported under the other APRA definition which had been aligned with the Accounting Standards for 2021.

The Bank is required to maintain a minimum capital level of 10.5% 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:

	2021	2020	2019	2018	2017
	19.24%	18.27%	19.12%	19.40%	18.65%

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

2021

	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
	\$m	\$m	\$m	\$m	\$m
Investment securities	367.4	-	367.4	-	367.4
Loans and advances (before provision)	1,767.9	-	-	1,768.6	1,768.6
Investment at FVOCI - shares in Cuscal Limited	10.3	-	-	10.3	10.3
Total financial assets	2,145.5	-	367.4	1,778.9	2,146.3
Deposits	1,885.2	-	-	1,885.2	1,885.2
Borrowings	150.0	-	-	150.0	150.0
Total financial liabilities	2,035.2	-	-	2,035.2	2,035.2

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	1,789.7	-	-	1,790.2	1,790.2
Borrowings	139.8	-	-	139.8	139.8
Total financial liabilities	1,929.5	-	-	1,930.0	1,930.0

15. Standby credit facilities

The Bank has the following standby credit facilities:

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Other reserves	47.6	46.4	47.6	46.4
Asset revaluation reserve	0.1	1.0	0.1	1.0
Fair value reserve	4.6	3.8	4.6	3.8
Credit losses reserve	3.7	3.2	3.7	3.2
Transfer of business reserve	7.0	7.0	7.0	7.0
Total reserves	63.0	61.4	63.0	61.4
Other reserves				
Balance at beginning of financial year	46.4	45.2	46.4	45.2
Allocation of funds to general reserve	1.2	1.2	1.2	1.2
Balance at end of financial year	47.6	46.4	47.6	46.4
Fair value reserve				
Balance at beginning of financial year	3.8	2.6	3.8	2.6
Revaluation of Cuscal shares (net of tax)	0.8	1.2	0.8	1.2
Balance at end of financial year	4.6	3.8	4.6	3.8

Nature and purpose of reserves

Other reserves

Other reserves include the general 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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Sundry debtors	2.6	2.7	2.2	2.4
Inter-company receivables	-	-	-	0.3
Total receivables	2.6	2.7	2.2	2.7

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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Land	5.4	5.4	5.4	5.4
Buildings				
At cost	10.8	12.2	10.8	12.2
Less: accumulated depreciation	(2.0)	(1.7)	(2.0)	(1.7)
Total buildings	8.8	10.5	8.8	10.5
Total land and buildings	14.2	15.9	14.2	15.9
Plant and equipment				
At cost	6.9	6.9	6.7	6.7
Less: accumulated depreciation	(4.3)	(3.7)	(4.2)	(3.6)
Total plant and equipment	2.6	3.2	2.5	3.1
Leasehold improvements				
At cost	2.3	2.2	2.3	2.2
Less: accumulated amortisation	(2.0)	(1.7)	(2.0)	(1.7)
Total leasehold improvements	0.3	0.5	0.3	0.5
Right-of-use assets - property				
At cost	4.7	8.0	4.1	7.4
Less: accumulated amortisation	(1.6)	(1.0)	(1.5)	(0.9)
Less: adjustment for revised assumptions	-	(2.5)	-	(2.5)
Less: impairment	-	(0.8)	-	(0.8)
Total right-of-use assets - property	3.1	3.7	2.6	3.2
Right-of-use assets - motor vehicles				
At cost	0.6	0.6	0.6	0.6
Less: accumulated amortisation	(0.4)	(0.2)	(0.4)	(0.2)
Total right-of-use assets - motor vehicles	0.2	0.4	0.2	0.4
Total property, plant and equipment and right-of-use assets	20.4	23.7	19.8	23.1

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 \$m	PLANT & EQUIPMENT \$m	LEASEHOLD IMPROVEMENTS \$m	ROU ASSETS - PROPERTY \$m	ROU ASSETS - MOTOR VEHICLES \$m	TOTAL \$m	LAND & BUILDINGS \$m	PLANT & EQUIPMENT \$m	LEASEHOLD IMPROVEMENTS \$m	ROU ASSETS - PROPERTY \$m	ROU ASSETS - MOTOR VEHICLES \$m	TOTAL \$m
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
Disposal	-	(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
At 1 July 2020												
Opening carrying value	15.9	3.2	0.5	3.7	0.4	23.7	15.9	3.1	0.5	3.2	0.4	23.1
Additions	-	-	0.1	-	-	0.1	-	-	0.1	-	-	0.1
Disposal	(1.4)	-	-	-	-	(1.4)	(1.4)	-	-	-	-	(1.4)
Depreciation/amortisation	(0.3)	(0.6)	(0.3)	(0.6)	(0.2)	(2.0)	(0.3)	(0.6)	(0.3)	(0.6)	(0.2)	(2.0)
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2021	14.2	2.6	0.3	3.1	0.2	20.4	14.2	2.5	0.3	2.6	0.2	19.8

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.

19. Intangible assets

	CONSOLIDATED ENTITY			POLICE BANK LIMITED		
	SOFTWARE	CUSTOMER LISTS	TOTAL	SOFTWARE	CUSTOMER LISTS	TOTAL
	\$m	\$m	\$m	\$m	\$m	\$m
Cost						
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
Additions	0.7	-	0.7	0.7	-	0.7
Disposals	(0.5)	-	(0.5)	(0.5)	-	(0.5)
At 30 June 2021	2.0	6.5	8.5	2.0	-	2.0
Accumulated amortisation						
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)
Amortisation and impairment	(0.7)	(0.3)	(1.0)	(0.7)	-	(0.7)
At 30 June 2021	(1.6)	(2.7)	(4.3)	(1.6)	-	(1.6)
Carrying amounts						
At 30 June 2020	0.9	4.1	5.0	0.9	-	0.9
At 30 June 2021	0.4	3.8	4.2	0.4	-	0.4

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. The estimated useful lives are 18 years.

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. Software costs are amortised over its useful life.

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. The recoverable amount takes into account the value in use

of the intangible assets. Critical judgements are made by the Bank in setting appropriate impairment triggers and assumptions used to determine the recoverable amount.

At 30 June 2021 no impairment indicators were noted (2020: none).

Amortisation and impairment

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

The customer lists are being amortised on a straight line basis over their useful lives.

20. Creditors and other liabilities

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Trade creditors and accruals	17.1	8.5	16.9	8.4
Provision for employee benefits	1.5	1.5	1.3	1.4
Provision for leasehold make good	0.5	0.7	0.5	0.7
Sundry provisions	1.9	0.3	1.6	0.1
Total creditors and other liabilities	21.0	11.0	20.3	10.6

Trade creditors and accruals represent liabilities for goods and services provided to Police 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 2021, 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		
	2021			2020		
	Directors	Other KMP	Total	Directors	Other KMP	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Short term employee benefits	543.5	2,312.2	2,855.7	659.7	2,545.6	3,205.3
Post-employment benefits	51.6	162.6	214.2	63.3	233.8	297.1
Other long-term benefits	-	-	-	-	21.8	21.8
Termination benefits	211.9	10.9	222.8	269.3	657.2	926.5
Total	807.0	2,485.7	3,292.7	992.3	3,458.4	4,450.7

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 are 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 2021 was as follows:

	CONSOLIDATED ENTITY & POLICE BANK LIMITED			CONSOLIDATED ENTITY & POLICE BANK LIMITED		
	2021			2020		
	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	174.2	-	63.7	154.2	-	45.1
Balance	8,368.3	-	27.3	2,506.3	-	17.9
Amounts disbursed or facilities increased in the year	5,862.0	-	9.4	2,993.1	-	166.6
Interest and other revenue earned	86.1	-	0.1	43.6	-	0.5

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	
	2021	2020
	\$'000	\$'000
Term and savings deposits	2,888.7	1738.7
Interest paid	15.1	27.8

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	
	2021	2020	2021	2020
	\$	\$	\$	\$
Audit services				
Statutory audit of financial report and other statutory assurance services	204,125	161,625	204,125	161,625
Other services				
Taxation and other services	92,227	30,889	22,536	22,089
Total auditor's remuneration	296,352	192,514	292,661	183,714

Auditors of the Bank for the year ended 30 June 2021 are Deloitte Touche Tohmatsu Australia (2020: Deloitte Touche Tohmatsu).

23. Commitments

a. Outstanding loan commitments

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Loans approved but not funded	73.1	64.8	73.1	64.8
Undrawn credit commitments	50.2	52.0	50.2	52.0
Loans available for redraw	10.3	11.6	10.3	11.6
Total commitments	133.6	128.4	133.6	128.4

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Within 1 year	1.1	1.1	1.1	1.1
1 to 2 years	0.8	1.0	0.8	1.0
2 to 5 years	0.1	0.6	0.1	0.6
Greater than 5 years	0.0	-	0.0	-
Total	2.0	2.7	2.0	2.7

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	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Net profit for the year	4.2	0.4	4.1	0.9
Bad debts written off	0.3	0.7	0.3	0.7
Loss/(gain) on disposal of property, plant and equipment	1.4	0.9	1.4	0.9
Depreciation and amortisation	3.1	3.6	2.7	2.9
Impairment - right-of-use assets	-	0.8	-	0.8
(Increase)/decrease in receivables	0.5	(0.5)	0.9	3.4
Increase in creditors and other liabilities	8.2	(3.1)	7.7	(3.0)
Decrease in net deferred tax liabilities	(0.3)	(0.8)	(0.3)	(0.8)
Increase in loans and advances	(78.1)	(64.0)	(78.1)	(64.0)
Increase in provision for impaired loans	-	2.2	-	2.2
Increase in unamortised loan origination fees	-	0.3	-	0.3
Increase in deposits	93.3	99.0	93.5	99.0
Net cash inflows from operating activities	32.6	39.5	32.2	43.3

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 2021, the Consolidated Entity has no material contingent liabilities which need to be disclosed.

26. Accounting policies

a. Basis of preparation

The consolidated entity consists of Police Bank Limited as the ultimate parent entity and its controlled entities.

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 Members' 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 27 October 2021.

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.

AASB16 Leases

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.

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.

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.

d. New accounting standards and interpretations issued but not yet adopted

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

27. Events subsequent to reporting date

The Directors are not aware of any matter or circumstances occurring since 30 June 2021 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 2021

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

- (a) The financial statements and notes set out on pages 8 to 54 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
27 October 2021



Robert Redfern
Deputy Chair

Sydney
27 October 2021

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 2021, 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 2021 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 2021, 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.

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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


Mark Lumsden
Partner
Chartered Accountants
Sydney, 27 October 2021