PoliceBank
The strength of community

Annual Financial Report 2022

SUPPORTING OUR POLICE
AND COMMUNITY PARTNERS

Contents

CHAIR'S REPORT

Looking over the horizon

It has been another year of significant change for Police Bank, and I am pleased to say that the projects initiated two years ago are coming to fruition, and the bank continues to perform well in financial terms through these changing times, which have affected not only technology but also culture.

As a board, it is our responsibility to look over the horizon and build a bank that will be resilient and sustainable over not just the next few years, but the next 50. To do that, we've had to make significant investments in our technology, such as the new app and the core banking system. We have also had to transform our culture, with recognition of the importance of our people to the success of Police Bank.

While investment in technology and the core banking system may not be something that members see and feel, it's critical to the future of the bank. We know that it is important to ensure that we have the ability to support police families financially into the future. This is at the heart of what we do – assisting police and their families to gain financial security, by honouring the intent of the people who set the Police Credit Union up in the '60s. We want to take the vision that they had and continue it long into the future.

At our core is the concept of mutuality, and the fact that we are different from other financial institutions. We don't have shareholders; we are owned by and accountable to our 73,000 members. We're able to support people who are in need, which was important in building on the COVID, fire, and flood situations that we have experienced, and supporting people who have been impacted by those events.

It's one thing to support members during good times, but it's wholly another thing to be there during bad times. Police Bank will always be there during the difficult times for all members and the police family. That is why we are committed to strengthening our support for the important work of Police Legacy, as our principal charity.

We are also proud of our support for police sports; for example, as a major sponsor of the police rugby league and, especially, as a backer of the emerging women's police rugby league, at both a local and representative level. For the first time, the Women's State of Origin took place this year. We are privileged to be a foundation supporter of that event.

It comes back to the work the bank has done this year with our focus on member outreach. We have looked to not just sponsor these events but also to be an integral partner, whether it's at Police Week – including the Wall to Wall Ride, the National Police Bravery Awards, and Police Remembrance Day – or the myriad other occasions when our members gather to remember the fallen or celebrate policing. The board and our team attend these important occasions. Some of you might have seen Boyd Stewart, our Head of Partnerships and Engagement, with aprons on and tongs in hand at police sport and training days. He and others in the team have been crucial to uplifting our member engagement. We were delighted to partner with the Police Games in October and we look forward to continuing to support the Police Legacy and key events for our members because we understand their importance to the police culture.

Your bank has a very experienced board, all of whom are significant contributors, with the vast majority coming from a policing background. Members can be assured that deputy chair Robert Redfern, Col Dyson, Dave Hudson and our new board members, Nick Kaldas, Pat Gooley and Justine Saunders are not only highly qualified but are 100% committed to helping the Police and Border Force family. We've supplemented our member-elected directors by appointing Julie Osborne and Sharon Waterhouse, who have significant external banking experience with specific expertise in the sector we identified as critical to our success.

This ensures that we have a blend of experience, ways of thinking, and skills – diversity that aligns with our long-term objectives at the bank. I look forward to working closely with them to steer Police Bank into the future.

I would like to take this opportunity to acknowledge the service of Raff Del Vecchio, who was on the board for almost 12 years. His work was invaluable in modernising our governance structures and for his commitment to the bank and the role that it plays.

It is important that we note that, for the bank to both be viable and sustainable, we must have a balance sheet that reflects our capacity to thrive into the future. It is gratifying that we've been able to achieve really good financial results while we are investing heavily in technological and cultural change, and that's something that we're proud of. Most significantly, we continue to be able to reward those who built the bank and ensure that we can assist our younger members with home loans and their day-to-day banking by maintaining competitive interest rates both for borrowers and investors.

I am really proud of the pilot of the HOPE home loan product we launched in September this year. It's an innovative solution designed to make home ownership more affordable and accessible for police and other essential workers. I am convinced this shared equity product will be a game changer for members into the future.

Lastly, our impressive results could not have occurred without the incredible work of our people. Our teams across the bank have not only risen to the challenge that the transformation process presented, but also have continued to provided first-class service to members.

It's one thing to support members during good times, but it's wholly another thing to be there during bad times. Police Bank will always be there during the difficult times for all members and the police family.

Peter Remfry
Chair
Police Bank Board

Being run by members, for members, means we'll do more to support you and those you care about. From backing police sporting teams and events and representing the needs of police through police associations, to supporting the families of those who have passed away in the line of duty through police legacies – we're working hard today, to protect the financial security and wellbeing of our policing families for tomorrow.

CEO'S REPORT

Our journey continues

At Police Bank, we are on a transformation journey. This includes the tangibles, like products, technology, our mobile app, and building a bank of the future. It is also about the intangibles, including developing our culture to better reflect who we are and who we want to be, and building on our ability to provide the level of service and care for our members that they need and deserve.

I have worked with the bank now for more than a decade, first as a member of the Board and more recently as CEO. But it is only when you join the organisation in a full-time capacity that you see it for what it is – the good, the great, and sometimes things that are a little ugly and need to be changed.

I am pleased to say that while we continue with the good and the great, we are now in year three of a five-year transformation program to modernise the bank to move with the changed expectations of our members. It has been a lot of work, but the team has done a stellar job of managing business as usual – during COVID – and changing the bank at the same time, as we worked through an ambitious plan to revitalise not only our business, but also who we are.

Against the backdrop of transformation, we have had an excellent year in terms of deposit and loan growth. Across the bank, our teams have lifted expectations and I am thankful for the work they have done and the initiative they have shown as we continue this transformation.

OUR TECHNOLOGY

The biggest and most structural component of our multi-year transformation is the changing of our core banking provider from Ultradata to Temenos. Changing the core partner is one of the most significant things a bank can do, and the risks of undertaking a project of this scale are significant.

As we looked out across our future, however, and factored in everything from our ability to meet our regulatory and reporting obligations through to having the platform we needed to have to deliver future products and service to members, it became clear making this change was critical.

One reason we needed to make this change is our overwhelming volume of transactions initiated out of branch – at a ratio of around 1500 to 1. That is, via mobile app, internet banking, tap and go, Paywave, and ATMs.

The new core banking platform will enable us to lower the costs of running the bank and offer a better experience when the team across the bank serves our members. The new core will also allow us to plug in smart computing and AI throughout our processes, taking the 'time to yes' for a home loan application down from days to minutes.

The modernisation of our tech stack has also enabled us to bring to members our recently launched new mobile banking app, which is the platform on which we'll build the app of the future for our members. The new app will allow us to introduce new functionality for members as needed and when members desire.

Banks have always been havens of paperwork. Our transformation has seen us invest in refining our internal processes, to remove some of the manual parts of our teams' work to make more time available to do what they do best – serve our members. That also means less paperwork for members to fill out. It's a work in progress but watch this space as we digitise our forms.

Our technology transformation remains in laser focus, and we are pleased with how it is progressing. We are also pleased that despite the significant investment we are making in our technology stack, we have again been able to hit our budgeted profit target. This is important because it shows the sustainability of the financial side of the bank, which has long been one of Police Bank's enduring strengths.

OUR PEOPLE

Beyond the functional part of banking – technology and products – our ability to meet our members' needs rests in one place, our people. Our regulator, APRA, is rightly focused on the banks' and other financial institutions' culture – both toward risk management and more broadly. The need to reform both these aspects of Police Bank was apparent when I became CEO and it remains a laser focus now. In partnership with the Board and leadership team, we are building the kind of robust culture that is sustainable for the long term, and which will underpin our financial strength.

We actively promote a culture of speaking up without fear, of taking ownership and responsibility, and being aware of what is happening right across the organisation, not just in one's own department. All this should be able to be taken as read. But, as the regulator's focus suggests, sometimes it is not. So, we work hard to reinforce and underpin the culture that will drive Police Bank forward for many years to come.

The 'right' culture is critical because we want people to remain focused on delivering for our members – and enjoying their work as they do that.

Our culture is about our people, and we have updated our enterprise agreement for bank employees and increased all the seven levels of support they can currently access, in addition to including three new categories of support. The world of work continues to change and for us to become and remain an employer of choice, we must continue to review and update the foundations of our relationship with our staff.

OUR MEMBERS

It is our desire to be the most unashamedly member-obsessed bank in Australia, and that means going above and beyond member expectations at every point in their journey with our bank. To do that in 2022, and to take us to 2032, takes financial strength, a modern technological offering, a strong and positive culture, and a life-cycle product offering that helps our members no matter their stage of life. We do this through everything from our high-interest savings accounts for our youngest members, through to making home loans easier to access for families, as well as offering our financial planning service through Chelsea Wealth.

Though it is a small and diminishing part of our business in terms of member transactions, our branches in Canberra, Goulburn Academy, Wollongong, Narellan, Parramatta Police Centre Kiosk, Sydney City, and Newcastle remains, and will remain, intact for the foreseeable future. Our Partnership and Engagements team, led by Boyd Stewart, is working with stakeholders such as the RFPA, among others, to bridge the gap in the unavoidably small size of our branch network.

It's been a tough few years for members. First, our long-term members holding term deposit and savings accounts suffered when the Reserve Bank of Australia took the cash rate down to 0.10% during COVID. More recently, borrowers are now feeling the brunt of the Reserve Bank actions, as rates have risen to around 3% so far in this cycle.

Balancing the needs of depositors and borrowers is a tension we seek always to get right. Term deposits were consistently held above the major banks' rates during COVID to try to give a little back to our long-term deposit holding members. On the flipside, though, we've been forced to match most of the Reserve Bank of Australia's (RBA) rate hikes. We remain ultra-competitive in the fixed-rate space, to give borrowers certainty should they want it, while our variable interest rates on home loans are among the lowest in the bank market for full-featured products. Our personal loan and credit card products remain similarly competitive.

In tandem with our new products aimed at the entire member lifecycle, we continue to invest in supporting our community, from our longstanding commitment to Legacy, to having our Head of Partnerships and Engagement getting out to meet our members at their sporting events, community days and education seminars. We have always been there to support our membership wherever we can, but we didn't necessarily have feet on the ground in support before. Now we do.

Police Bank was built by members for members. It is fair to say we lost that ethos for a time. But since becoming CEO, it has been paramount for me that we reconnect with our members, across the forces and states and territories. It is they who make us what we are, and without their support, and our support of them, we'd be just another bank. It is important to know that, for our members, we will always be more than a bank. We will support officers and their families if they are injured or incapacitated, we will help ensure sports events carry on, and we will work on providing education on financial literacy, mental health, and community wherever we can.

Police Bank is doing something uncommon among many mutual banks. We are not only bringing new members to the bank, but the exciting news is most of our new members are under the age of 40. They have been able to follow the work we do, track our commitment to our members, and then make the decision to join us. We are also retaining our members across the rest of our business, although we acknowledge the disappointment some still feel about decisions we have made in the past.

We are still in a time of transformation and one that will present as many challenges as opportunities. The important thing is we have the right partners in place to help us achieve our goals, and the right people in place to help us deliver for members.

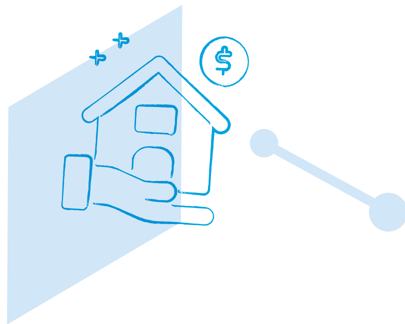
We continue to aspire to being the most member-obsessed bank in Australia, delivering market-leading products and services and supporting those among the most vital members of our communities – our police and border forces.

Greg McKenna

Greg McKenna
CEO
Police Bank

The new core banking platform will enable us to lower the costs of running the bank, to offer a better experience, when the team across the bank serves our members. The new core will also allow us to plug in smart computing and AI throughout our processes, taking the **'time to yes'** for a home loan application down from days to minutes.

Our Strategy



Our strategy at Police Bank is straightforward – to be the most member-obsessed bank in the country. This is what drives us each day, and putting all our effort into building and supporting a community of members who partner with us through each stage of their lives is our goal.

To build that bank, a significant transformation was needed from where we were only a couple of years ago.

We needed to focus on our technology, our culture, and our members.

Our Members

That is the reason we are transforming the bank – our members. We know that Police Bank lost relevance across many years with our core membership, where they felt unsupported or didn't see any benefit to being a customer of the bank. We must change that.

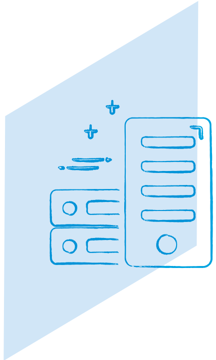
Our Head of Partnerships and Engagement has spent more time on the road than ever before at events that matter to our members. We are there supporting sporting events, including the exciting emergence of women-specific codes and competitions, and continuing to do everything we can to help the Legacy organisations with which we partner.

This year, we launched our Spotlight member newsletter, to foster a sense of community through the bank, which allows us to provide insight and education on everything from managing your mental health through our partnership with Emerge&See, to financial literacy education.

It was also critical for Police Bank to work on delivering products and services that match any given life stage or goals. We launched our U30 account to help our youngest members save for a large expense, while adjusting our term deposit rates to reward our older members, who often have money invested through a term deposit with the bank.

Helping our members afford to buy homes in the places where they work is also an ongoing focus, and we were delighted to partner with HOPE Housing as its funding partner. HOPE is a not-for-profit investment manager that will co-purchase a property for a front-line worker, making buying a home possible for members who previously had to live far away from where they worked.

As the RBA increased interest rates, we looked to spread the rates across our products to minimise the impact on owner-occupiers and first-home buyers, and we will keep making decisions that are in the best interest of all our members.



Our Culture

Building a member-obsessed bank also means our culture needs to align. We need all the teams in the bank to love the work they do and changing the culture of the bank has been and will continue to be a focus for management.

This starts with the development of a 'speak up' culture, where the team are encouraged to be frank with their thoughts throughout the business. This commitment to transparency is an emerging way of thinking and encourages cross-team support and confidence in reporting up through the business to the CEO.

This is critical because Police Bank needs to be able to attract the best and brightest in the industry, and to keep the brilliant people within the bank here as long as they choose to stay. We want to be an employer of choice, sought out by new candidates for our culture and member focus and referred by current and former staff when the teams are growing.

To create an environment where team members feel understood and respected, we looked closely at the mechanisms that exist to support them when they need it. We increased all seven existing areas of leave, from compassionate leave to paid parental leave, and introduced three new categories including menopause leave and cultural observance leave.

All of this is designed to create a supportive culture, with staff who are here for the long term, delivering for our members across years.

Our Technology

The technology behind a bank is something that members, for the most part, don't see. It is, however, critical for the longevity and capability of the bank.

We are currently in the process of transitioning our banking services to a new core banking partner, which is a significant project that comes with many risks. However, to enable our members to interact with us where and how they like – whether that is applying for a product from a patrol vehicle while working night shift or managing their finances through an app – replacing our core system is essential. This will give the bank the platform to evolve to meet member needs over the long term.

This technology-driven efficiency will see the 'time to yes' for a mortgage application drop from days to minutes. It will allow future integrations of technology that doesn't exist yet that our members will want to use. The new core banking platform by Temenos will enable that.

It is also critical for us to invest in and deliver the best security available. Given the threats of recent data breaches and ever-evolving scam activity, Police Bank needs to invest in robust protection for our members.

The road is long and will be filled with challenges. Police Bank is undertaking a transformation project unseen in our sector. We will make mistakes along the way, and we will learn from them. We are focused on building a bank that will be a cornerstone of the police community not for years, but for decades.

About Police Bank

Since its inception in 1964, Police Bank has always been focused on making police officers' lives easier with straightforward banking products delivered by a supportive team.

As a member-run institution specifically for the Police Force and Border Force, we know the pressures our members face and how important it is that they have the support they need as they move through the stages of their lives.

Where possible, Police Bank has looked to continue to build on its mission to bring the community together to foster an even greater sense of community through shared experience. We've done this through sponsoring and hosting events, from sporting festivals to dinners. We've also continued our Police Legacy work across three jurisdictions to help the families of members we've tragically lost. We've also supported individual members who have needed additional help with their finances, through our partnerships with several Police Associations.

We believe there is no better time to unite a community performing similar functions in different states, with shared goals and frustrations. We will continue to foster these bonds.

We have continued our modernisation journey in 2022, including greater investment in 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 continue to give back to the community and to individual members. Police Bank will continue to put members and their long-term financial wellbeing at the centre of all decision-making.

Connected to community

Being there for our people

Part of our ongoing commitment as a member-owned bank is to give back to our community, whether it's when people need us the most or for initiatives that bring the police family together.

In 2021-22, we reinvested more than **10 per cent of our profits** into the police community.

A major part of our work supporting members is our longstanding relationship with police legacies, extended now to include the Australian Federal Police and Tasmanian arms of Legacy, along with New South Wales.

Every year, sadly, more members of our Police Force are lost and it's important their families are supported through tough times in respect of the sacrifices their loved one has made.

Our ongoing commitment to these legacies means more financial and emotional support is available to the families and children of Police Force members who have passed away on or off duty, through urgent financial aid and funding initiatives that preserve the special memories and achievements of fallen officers.

A major milestone for Legacy is the annual Wall to Wall remembrance ride that we sponsor – a tribute trip on motorcycles from Sydney's police memorial all the way down to Canberra's national police memorial. Our deputy chair, Robert Redfern, has been riding in the event since its inception and the 2021 event in September was no exception, raising much-needed awareness and funds for the cause.

Alongside major events and fundraisers for Legacy, like the Blue Ribbon Ball that we sponsor, we know our officers love sport, and love getting together in friendly competition to test their skills and battle it out on the field.

We are once again proud to have sponsored the NSW Police & Emergency Services Games, and support both the NSW Police Rugby League women's and men's competitions in their State of Origin matches against Queensland, – with wins for both.

At a grassroots level, our community and charitable work throughout the year means being involved in police activities and events that lift community spirits and build camaraderie. Our Head of Partnerships and Engagement, Boyd Stewart, represented Police Bank's support at more than 100 local events, including in northern NSW communities impacted by devastating floods at the start of 2022.

In 2021-22, we reinvested more than 10 per cent of our profits in the police community.

PROFILE

Full marks for service

Glen's first couple of years with Police Bank

When Glen Marks graduated from the NSW Police Force Academy two years ago, one of the first things he did was open a transaction account with Police Bank.

Mr Marks said the bank made the decision easy by greeting the newest members of the Force soon after they graduated.

"Everyone from Police Bank came down and had a chat to us," he said. "It just felt very personable and family-orientated," he said of the staff and culture at the bank.

"I signed up straight away," he added.

Now working in the Rocks in Sydney for the NSW Police Force, Mr Marks said all of his dealings with the bank have been great, especially as he has expanded the number of products he has with the bank.


The Rocks, Sydney

A TEN-OUT-OF-TEN EXPERIENCE

Recently, Mr Marks signed up for a personal loan and spent time speaking with Police Bank's Dominic at the Surry Hills branch.

When asked about his experience, he said it was "ten-out-of-ten".

"Dominic was just very easy to work with," Mr Marks said. "He would always ask me how my day was going and it just wasn't what you would expect from a bank; I felt like I was talking to a real person."

In terms of the process, Mr Marks said it was fairly seamless. However, the part he most appreciated was being kept informed along the way.

"There was constant contact and dialogue," he said.

Although he's still in the early years of his career, Mr Marks said he loves working for the NSW Police Force and it will be a "lifelong career". With that, he also expects to be with Police Bank for a long time to come.

"It just felt very personable and family-orientated."

PROFILE

Going above and beyond

When Ian Phipps needed to move to a new home quickly, he knew he'd have to ask his bank to perform a bit of a miracle.

The Toowoomba-based former cop, who had the added pressure of moving over the typical Christmas closedown period, explained his predicament to Police Bank. Within a few days, he was packing his bags, much to the delight of his friends and the real-estate agents.

"Usually it takes about five days to get a loan approval... but [Police Bank] were able to get the loan through in record time," he said.

Mr Phipps collected his financial information, went to the Police Bank website and was quickly put in touch with a customer representative. After hearing about the situation, the lending manager accelerated the process, while ensuring responsible lending obligations were met.

Mr Phipps said the quick response was particularly impressive, given the regular delays seen with COVID-19 and the holiday period.

"I really struck it lucky," he said.

'I WOULDN'T GO ELSEWHERE'

While Mr Phipps no longer works for the Police Force, he said he's been a Police Bank customer for more than 20 years. Throughout that period, he has had plenty of support from the bank through life's ups and downs.

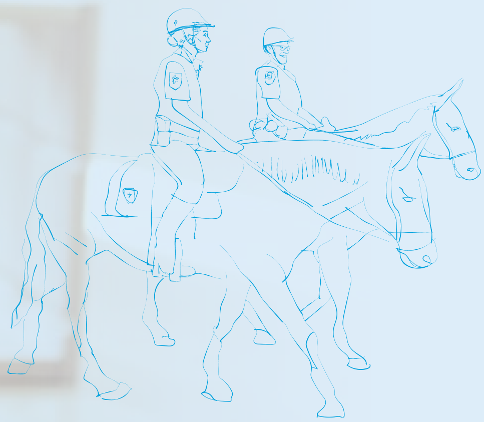
"When I left the police, I did fall on some hard times," Mr Phipps said. "Police Bank was very helpful in making sure I didn't destroy my credit rating."

Mr Phipps has since relocated north and now works for Queensland Fire and Emergency Services, looking after volunteers. Despite the change of industry, he said he wouldn't think about leaving Police Bank for another financial institution.

He said the customer service focus in particular makes Police Bank stand out, especially in the current digital age.

"I know [Police Bank] is always just a phone call away, they've got an Australian-based call team and they'll look after you," Mr Phipps said.

> "Usually it takes about five days to get a loan approval but Police Bank were able to get the loan through in record time."



PROFILE

Lucky number 21

Why Grahame Maher has stuck with Police Bank

When now-retired Grahame Maher first joined the NSW Police Force, there wasn't a single set of traffic lights in Sydney. In fact, it was down the the police, including Mr Maher, to control the traffic at the intersections of the CBD.

"The only way you could get out of it was to go and ride a motorbike," he said.

The Police Force veteran was foundation member number 21 of what was then Police Credit Union No.1 Division LTD. Today, you know it as Police Bank.

Mr Maher had joined the force in late 1963, at the age of 19. He was stationed at Sydney's Clarence Street. Just a few months later, the credit union was founded at the direction of former police commissioner Norm Allen.

"There was a lot of work that went into putting it together, all by volunteers," he said.

The community and volunteer spirit is something Mr Maher most appreciates about Police Bank.

A DIFFERENT TIME

It's probably no surprise that the credit union of 1964 looked different to the one you know today.

"Back then, banking was all done by cash," Mr Maher said.

"You paid five pounds to join the Police Credit Union and after that, you had to put money into your account, after you cashed your cheque."

It's a very different scenario to today, when cheques are used infrequently, many transactions are done online and paper cash is becoming a rarer sight. Advertising strategies have also changed significantly.

"The first time the credit union advertised to the members to get a loan was through a keyring," he said.

Mr Maher still has his keyring, with an inscription that reads, "How old are these keys? If you need to improve your home or car, call us for a loan."

FOND MEMORIES

From his early days in Clarence Street, Mr Maher's career took him to the Police Force's Highway and Traffic Patrol team. As a retiree, he now lives in Wollongong.

Several decades on, Mr Maher said he is proud to be a foundation member and has not considered leaving the bank, due to its customer service and community focus.

He said he still reflects fondly on his early days with both the Police Force and the credit union, especially when he thinks about the camaraderie.

"We're all mates," he said.

William St, Sydney, 1963

"We're all mates."

MEMBER FEEDBACK

I have been a Police Bank member since 2003. Like most recruits, I opened an account with the Police Credit Union, as it was then known.

Over the years, I applied for several loans and was declined, yet other financial institutions were more than willing to provide a line of credit above and beyond what I required. This gave my wife and I the impression that being a police officer and a member of Police Bank was not a benefit to us and we closed most of our accounts.

The support, advice, and customer service provided by both Boyd and Gai was nothing short of extraordinary. It's a credit to you and the staff at Police Bank for initiating such a seismic culture shift within Police Bank. My wife and I have now refinanced with Police Bank and have accounts only with Police Bank.

Sorry I didn't email earlier as soon as I got the keys, it was moving time! It's so exciting!

Arriving at my new home to find your gift waiting at the front door was such a lovely surprise! I just want to say a huge thank you for everything you have done from the first time we emailed!

I wasn't expecting to buy this quickly, but everything just fell into place and you made the whole process so exciting and took so much of the stress out of it. No-one ever really talks highly of their banks, but I am really happy to be with Police Bank because you have made my experience so wonderful. From that first email, you were the perfect combination of friendly and professional. You always had quick and open communication to put my nerves at ease.

As a first-home buyer, I was like a fish out of water, not knowing how any of this worked. It's been amazing to have someone I can trust walk me through all the steps, explain everything and answer all of my questions along the way.

Thank you so much for being there with me on this journey! I still can't believe it's real! I am looking forward to watching your plant grow with me in my new home!

Thank you so much again!

Your Board

Peter Remfrey
Board Chair
Ex-officio of all Committees

Robert Redfern
Deputy Board Chair
MEMBER OF:
- Board Audit Committee
- Board Risk Committee
- Board Governance & Remuneration Committee

Col Dyson
Chair – Board Audit Committee
MEMBER OF:
- Board Risk Committee

DIRECTOR OF:
- Chelsea Wealth Management Pty Limited

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

Peter was 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 undertook postgraduate studies at Harvard University. He is also a nationally accredited mediator and a graduate of the Australian Institute of Company Directors. 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 has been a Director of Police Bank since 2013 and on 17 December he was appointed Deputy Chair of the Police Bank Board.

Robert has had a distinguished career in policing, having held positions as Local Area Commander, Commander State Audit, Commander Legal Services, and former 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's in Public Administration (Sydney) and a Master of Studies (Applied Criminology and Management) (Cantab).

Col Dyson was appointed to the Police Bank Board in 2012 and has served as the Deputy Chair of the Board.

Col has had a distinguished career as a former Detective Superintendent of NSW Police, and 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.

Julie Osborne

Chair – Board Risk Committee

MEMBER OF:

- Board Audit Committee

DIRECTOR OF:

- Chelsea Wealth Management Pty Limited

Julie Osborne was appointed as a Director of Police Bank on 7 October 2020, and has 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 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 its clients and markets initiatives in the financial services sector.

David Hudson

Chair – Board Governance & Remuneration Committee

MEMBER OF:

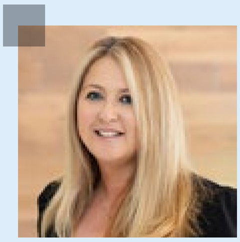
- Board Risk Committee

David Hudson has been a Director of Police Bank since November 2017.

He is the Deputy Commissioner of NSW Police and has a distinguished service record, including as Deputy Commissioner for Investigations and Counterterrorism, 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, the Police National Service Medal, National Service Medal 2nd clasp, Police Medal 5th clasp and Commissioner's Commendation for Service.

He holds a Master's of Public Policy, and holds further qualifications in criminology and corporate governance.



Sharon Waterhouse

MEMBER OF:

- Board Audit Committee
- Board Risk Committee

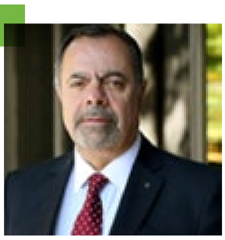
Sharon Waterhouse was appointed as a Director of Police Bank on 26 September 2019.

Sharon has more than 20 years' experience in the health and financial services industries, across a range of senior executive and non executive director roles. Currently, Sharon is CEO for Phoenix Health Fund.

Sharon's career includes previous executive roles with St George, Westpac, and Newcastle Permanent Building Society. She 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.

Sharon has won many prestigious awards, including the Innovation Award for LIXI (Lending Industry XML Initiative) best business enabler, the 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 holds a Bachelor of Economics, Master of Business Administration and Master of Arts (Business Research).



Nick Kaldas

MEMBER OF:
- Board Risk Committee
- Board Governance & Remuneration Committee

Nick was appointed to Police Bank in 2020 and has more than 35 years of policing experience, including almost a decade as the Deputy Commissioner of Police, commanding 14,000 staff and managing a budget of $2B.

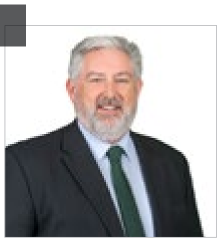
Nick was Director of Internal Oversight Services for the United Nations Relief and Works Agency (UNRWA) between 2016 and 2018, where he directed four divisions: Investigations, Audits, Ethics, and Evaluation. He managed some 35,000 staff in Syria, Lebanon, Jordan, Gaza and the West Bank.

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

Nick led 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 for Holdmark Construction, Chair of the MultiCultural NSW Advisory Board and a Senior Fellow at the Australian Strategic Policy Institute. He is a former member of the board of trustees for the Coptic Orthodox Diocese of Sydney and Affiliated Regions, and a former member of the board of directors of the Police, Citizens & Youth Clubs NSW.

Nick is a Member of the Australian Institute of Company Directors (MAICD).



Pat Gooley

MEMBER OF:
- Board Governance & Remuneration Committee

Pat was appointed as a Director of Police Bank on 30 January 2021. Pat left the NSW Police Force in 2018 as an Inspector at Kings Cross after spending 23 years in the NSW Police Force. He is currently the Secretary of the Police Association of NSW.

Pat held various positions on behalf of police, including Vice President of the Police Association of NSW (2010 2018), Assistant Secretary Legal Police Association of NSW (2016-2018), and Trustee of the NSW Police Provident Fund (2017-present).

He has been a Ministerial Appointee to the Police Superannuation Advisory Committee since 2008 and was a Ministerial Appointee of the Member Police Promotions Review Committee (2010-2018). He is also an Executive Member of Unions NSW, and the Australian Council of Trade Unions.

Pat was admitted as a solicitor in NSW in 2008. He completed the Harvard Trade Union Program at Harvard Law School in 2016, and holds a Diploma of Policing. He has also undertaken various executive, director and management courses and holds a Graduate Certificate of Management from UNSW AGSM.

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

Justine Saunders

MEMBER OF:
- Board Governance & Remuneration Committee

Appointed to Police Bank in 2021, Justine is also Deputy Chair of MensLink. She has formerly held positions on the boards of FORTEM and Women in Law Enforcement Strategy.

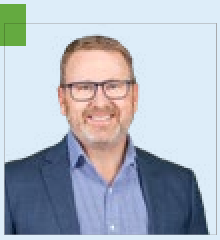
Justine was a member of the Australian Federal Police from 1989, including ACT Chief of Policing from 2016–2018. She led a workforce of 850 staff, including operational, support and corporate functions, and managed shared services delivered by the national arm of the Australian Federal Police. She delivered policing outcomes, including emergency service responses, while also driving and implementing significant cultural and capability reforms aimed at developing a sustainable and effective policing service for the future.

Justine commenced as a Deputy Commissioner with the Australian Border Force in October 2018, providing high-level strategic direction across all ABF operational activities, including ABF's response to the COVID pandemic and the unprecedented closure of the international border.

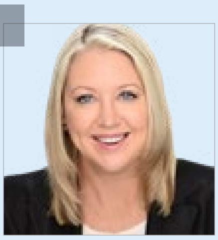
In December 2021, she became the Chief Operating Officer of Home Affairs and now leads the full suite of corporate and assurance services to the Department of Home Affairs and the ABF to support the achievement of government outcomes, including financial performance of an operating budget of over $3B, people and culture, integrity, security, assurance, health services and clinical assurance, property, procurement and contracts.

Justine holds a Master of Leadership and Management (Policing), Bachelor of Social Sciences (Policing Studies) with Distinction and Graduate Certificate in Applied Management.

Your Executive Leadership Team

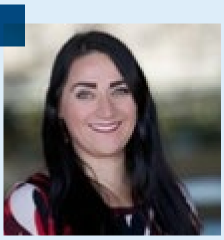


Greg McKenna
Chief Executive Officer

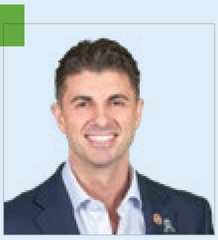


Dr Leanne Ward
Chief Finance Officer

Denis Fuelling
Chief People and Marketing Officer



Rayna Heckenberg
Chief Risk Officer



Nicholas Tseros
Chief Member Solutions Officer

POLICE BANK LIMITED
AND ITS CONTROLLED ENTITIES

ABN 95 087 650 799

Annual Financial Report

FOR THE FINANCIAL YEAR ENDED
30 JUNE 2022

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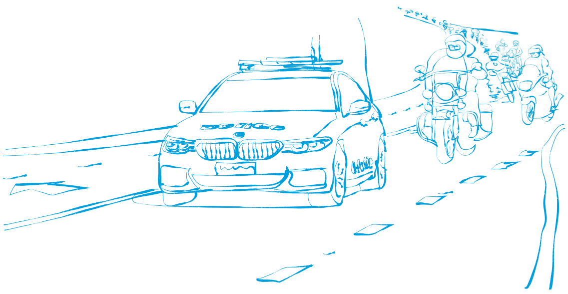

DIRECTORS' REPORT

The directors of Police Bank Limited and its subsidiaries (hereafter referred to as 'the Group'), together with the financial statements of Police Bank Limited ('the Bank') submit their report with the financial report of the Group, and Bank, for the financial year ended 30 June 2022. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and details of directors in office during the financial year and until the date of this report are listed below. Note that the directors were in office for this entire period unless otherwise stated.

Peter Remfrey	Robert Redfern
Colin Dyson	David Hudson
Sharon Waterhouse	Julie Osborne
Nick Kaldas	Patrick Gooley
Justine Saunders (appointed 20 October 2021)	

Refer to page 24 of the annual report for the particulars of the directors.

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:

DIRECTOR	BOARD		AUDIT COMMITTEE		RISK COMMITTEE		GOVERNANCE & REMUNERATION COMMITTEE		NOMINATIONS COMMITTEE	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Colin Dyson	13	13	3	3	3	3	–	–	–	–
Patrick Gooley	13	13	–	–	–	–	4	5	–	–
David Hudson	13	13	–	–	3	3	5	5	–	–
Nick Kaldas	10	13	–	–	2	3	3	5	–	–
Julie Osborne	13	13	3	3	1	1	2	3	–	–
Robert Redfern	13	13	3	3	3	3	5	5	–	–
Peter Remfrey	13	13	3	3	3	3	5	5	1	1
Justine Saunders	9	10	–	–	–	–	2	2	–	–
Sharon Waterhouse	13	13	3	3	3	3	–	–	–	–

Justine Saunders was appointed to the Board on 20 October 2021 and was granted a leave of absence from the 31 March 2022 Board meeting.

Nick Kaldas was granted a leave of absence from the 24 November 2021, 31 March 2022 and 30 June 2022 Board meetings, the 16 February 2022 Risk Committee and Governance & Remuneration Committee meetings and the 26 May 2022 Board Governance & Remuneration Committee meeting.

Patrick Gooley was granted a leave of absence from the 26 May 2022 Board Governance & Remuneration Committee meeting.

Julie Osborne was granted a leave of absence from the 21 October 2021 Board Governance & Remuneration Committee meeting.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the company, the company secretary, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

DIRECTORSHIP OF OTHER LISTED COMPANIES

None of the directors held a Directorship at other listed companies in the 3 years immediately before the end of the financial year.

FORMER PARTNERS OF THE AUDIT FIRM

None of the directors held a former partnership position in an audit firm, or are director of an audit firm, that is also the auditor of the Group.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL OF THE GROUP

Other transactions with key management personnel are disclosed in note 30.

PRINCIPAL ACTIVITIES

The Group 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 Group's registered office and principal place of business is 25 Pelican Street, Surry Hills NSW 2010.

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 these activities occurred during the year.

REVIEW OF OPERATIONS

The consolidated Net Profit After Tax (NPAT) was $4.3 million for the year ended 30 June 2022 (FY21: $4.2 million). This result is a moderate uplift year on year. However, excluding the investment of $2.2 million ($3.1 million before tax) in transformational initiatives during the year, the underlying NPAT was $6.5 million (FY21: $5.2 million), an increase of $1.3 million or 25% from prior year.

The investment in the transformational initiatives included $1.5 million ($2.1 million before tax) investment in systems and a further $0.7 million ($1 million before tax) in additional staff employed to support the transformational program.

A reconciliation of statutory NPAT, as presented in the financial statements, to underlying NPAT is as follows:

DIRECTOR	2022 $M	2021 $M
NPAT	**4.3**	4.2
Transformation platforms	**1.5**	–
Transformation personnel	**0.7**	0.5
Employee termination payments	**-**	0.2
One-off relating to branch closure	**-**	0.3
Underlying Net Profit	**6.5**	5.2

UNDERLYING NET PROFIT AFTER TAX

The underlying net profit after tax (NPAT) of the Group, which is not an IFRS measure, increased 25% from $5.2 million in 2021 to $6.5 million for the year ended 30 June 2022. The improvement in underlying NPAT result this year evidences the strength of the Group's business model including its strong connection to community. The improved underlying performance of the Group's underlying profit demonstrates the focus during the year on delivery of the Group's strategy through a focus on member engagement, aligning products to members needs and controlling costs.

DIRECTORS' REPORT

CONTINUED

DIVIDENDS

Dividends paid or declared by the Group since the end of the previous financial year was $nil (2021: $nil), paid to the shareholders of Chelsea Wealth Management Pty Limited of which $nil (2021: $nil) was paid to an external non-controlling interest. Police Bank Limited is the majority shareholder of Chelsea Wealth Management Pty Limited.

CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year that are not otherwise disclosed in this report.

SUBSEQUENT EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial year.

FUTURE DEVELOPMENTS

The directors are not aware of any likely developments in financial years subsequent to 30 June 2022 that may significantly affect the operation and expected results of the Group.

ENVIRONMENTAL REGULATION

The Group is not subjected to any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included after this report on page 33.

ROUNDING-OFF OF AMOUNTS

The Group is a company of the kind referred to in ASIC Corporations (Rounding in financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

DECLARATION

This Directors' Report is made and signed in accordance with a resolution of directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the directors

Peter Remfrey
Director, Chair
Sydney, 25 October 2022

Robert Redfern
Director, Deputy Chair
Sydney, 25 October 2022

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000

Tel: +61 (0) 2 9322 7000
www.deloitte.com.au

26 October 2022

The Directors
Police Bank Limited
25 Pelican Street
Surry Hills
Sydney NSW 2010

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 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
26 October 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

		GROUP		BANK	
	NOTE	2022	2021	2022	2021
INCOME					
Interest income	2	56.5	60	56.5	60
Interest expense	3	(7.8)	(13.8)	(7.8)	(13.8)
NET INTEREST INCOME		48.7	46.2	48.7	46.2
Non-interest income	4	8.3	7.7	5.6	4.7
TOTAL INCOME		57.0	53.9	54.3	50.9
Impairment expenses, net of recoveries	5	(0.3)	(0.2)	(0.3)	(0.2)
EXPENDITURE					
Employment expenses	6	(25.3)	(24.1)	(23.9)	(22.3)
Operating expenses	7	(22.5)	(20.3)	(21.7)	(19.7)
Depreciation and amortisation	8	(2.5)	(3.0)	(2.2)	(2.7)
TOTAL EXPENDITURE		(50.3)	(47.4)	(47.8)	(44.7)
PROFIT BEFORE INCOME TAX		6.4	6.3	6.2	6.0
Income tax expense	9	(2.1)	(2.1)	(2.1)	(1.9)
PROFIT AFTER INCOME TAX		4.3	4.2	4.1	4.1
OTHER COMPREHENSIVE INCOME/(EXPENSE), NET OF INCOME TAX					
Movement in asset revaluation reserve	26	1.1	–	1.1	–
Movement in equity instrument revaluation reserve	26	(0.5)	0.7	(0.5)	0.7
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		0.6	0.7	0.6	0.7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4.9	4.9	4.7	4.8
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Non-controlling interests		–	–	–	–
Members of the parent entity		4.9	4.9	4.7	4.8

The above statement of profit or loss and other comprehensive income should be read in conjunction with the notes to and forming part of the financial report.

STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2022					
		GROUP		BANK	
	NOTE	2022	2021	2022	2021
ASSETS					
Cash and cash equivalents	10	76.5	101.1	41.2	63.9
Trade and other receivables	11	4.1	2.6	3.8	2.2
Other assets	12	2.5	3.0	2.4	3.0
Investment securities	13	485.1	367.4	485.1	367.4
Net loans and advances	14	1,859.7	1,760.9	1,859.7	1,760.9
Equity investment	15	9.7	10.3	9.7	10.3
Investment in subsidiaries	16	-	-	39.0	40.1
Property and equipment	18	18.7	17.1	18.6	17.0
Right-of-use assets	19	2.8	3.3	2.4	2.8
Intangible assets	20	3.5	4.2	-	0.4
Net deferred tax assets	9	-	0.7	-	0.7
TOTAL ASSETS		2,462.6	2,270.6	2,461.9	2,268.7
LIABILITIES					
Deposits	21	2,107.2	1,952.4	2,107.2	1,952.4
Borrowings	22	122.8	82.8	122.8	82.8
Trade and other payables	23	11.4	17.1	12.3	16.9
Current tax liabilities	9	0.1	-	0.1	-
Provisions	24	3.2	3.9	3.1	3.4
Lease liabilities	25	2.9	4.0	2.5	3.5
Net deferred tax liabilities	9	0.7	-	0.7	-
TOTAL LIABILITIES		2,248.3	2,060.2	2,248.7	2,059.0
NET ASSETS		214.3	210.4	213.2	209.7
EQUITY					
Share capital		0.5	0.5	0.5	0.5
Reserves	26	60.2	63.0	60.2	63.0
Retained earnings		152.8	146.1	152.6	146.2
EQUITY ATTRIBUTABLE TO THE GROUP		213.5	209.6	213.2	209.7
Non-controlling interests		0.8	0.8	-	-
TOTAL EQUITY		214.3	210.4	213.2	209.7

(1) Refer to note 1.21 for information regarding the prior period restatement.
The above statement of financial position should be read in conjunction with the notes to and forming part of the financial report

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

GROUP	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
	$M	$M	$M	$M	$M	$M
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	–	–	–	–	–	–
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
AT 1 JULY 2021	0.5	63.0	146.1	209.6	0.8	210.4
Profit for the year	–	–	4.3	4.3	–	4.3
Other comprehensive income	–	0.6	–	0.6	–	0.6
Total comprehensive income	–	0.6	4.3	4.9	–	4.9
Transfer to general reserve	–	0.3	(0.3)	–	–	–
Transfer from credit reserves	–	(3.7)	3.7	–	–	–
Other	–	–	(1.0)	(1.0)	–	(1.0)
AT 30 JUNE 2022	0.5	60.2	152.8	213.5	0.8	214.3

BANK	SHARE CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
	$M	$M	$M	$M	$M	$M
AT 1 JULY 2020 – As previously reported[(1)]	0.5	61.4	143.7	205.6	–	205.6
Adjustment	–	–	(1.7)	(1.7)	–	(1.7)
AT 1 JULY 2020 – As restated[(1)]	0.5	61.4	142.0	203.9	–	203.9
Profit for the year	–	–	4.1	4.1	–	4.1
Other comprehensive income	–	0.7	–	0.7	–	0.7
Total comprehensive income	–	0.7	4.1	4.8	–	4.8
Transfer to general reserve	–	–	–	–	–	–
Other	–	0.9	0.1	1.0	–	1.0
AT 30 JUNE 2021	0.5	63.0	146.2	209.7	–	209.7
AT 1 JULY 2021	0.5	63.0	146.2	209.7	–	209.7
Profit for the year	–	–	4.1	4.1	–	4.1
Other comprehensive income	–	0.6	–	0.6	–	0.6
Total comprehensive income	–	0.6	4.1	4.7	–	4.7
Transfer to general reserve	–	0.3	(0.3)	–	–	–
Transfer from credit reserves	–	(3.7)	3.7	–	–	–
Other	–	–	(1.2)	(1.2)	–	(1.2)
AT 30 JUNE 2022	0.5	60.2	152.6	213.2	–	213.2

(1) Refer to note 1.21 for information regarding the prior period restatement.

The above statement of changes in equity should be read in conjunction with the notes to and forming part of the financial report.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2022					
		GROUP		BANK	
	NOTE	2022	2021	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		55.0	60.5	55.0	60.9
Other income received		7.1	7.6	4.4	4.8
Interest paid		(7.8)	(13.7)	(7.8)	(13.7)
Payments to suppliers and employees		(51.8)	(33.7)	(47.4)	(32.0)
Income tax paid		(1.5)	(3.1)	(1.4)	(2.8)
Net fundings in loans and advances		(99.1)	(78.4)	(99.1)	(78.4)
Net proceeds in deposits		154.8	93.4	154.8	93.4
NET CASH INFLOWS FROM OPERATING ACTIVITIES	33	56.7	32.6	58.5	32.2
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption of investment securities		416.1	727.3	416.1	727.3
Proceeds from disposal of property and equipment		-	-	-	-
Purchase of investment securities		(537.5)	(729.9)	(537.5)	(752.2)
Dividends received		1.2	-	1.2	-
Payments for property and equipment		-	(0.1)	-	(0.1)
Payments for intangible and other assets		-	(1.6)	-	(1.6)
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES		(120.2)	(4.3)	(120.2)	(26.6)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net increase in borrowings		40.0	14.6	40.0	14.6
Principal portion of lease payments		(1.1)	(0.9)	(1.0)	(0.7)
NET CASH INFLOWS FROM FINANCING ACTIVITIES		38.9	13.7	39.0	13.9
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(24.6)	42.0	(22.7)	19.5
Cash and cash equivalents at the beginning of the year		101.1	59.1	63.9	44.4
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	76.5	101.1	41.2	63.9

The above statement of cash flows should be read in conjunction with the notes to and forming part of the financial report.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 Summary of significant accounting policies

1.1 GENERAL INFORMATION

Police Bank Limited and its Controlled Entities ("the Group") is a reporting entity. The Group is a for-profit disclosing entity for the purpose of preparing the financial statements.

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

The nature of the operations and principal activities of the Group 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 these activities occurred during the financial year.

1.2 CURRENCY AND ROUNDING-OFF OF AMOUNTS

The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

The Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest hundred thousand dollars, unless otherwise indicated.

The statement of financial position is stated in order of liquidity.

1.3 STATEMENT OF COMPLIANCE

The financial report is a financial report which has been prepared in accordance with the requirements of Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB"), the Banking Act 1959, and the Corporations Act 2001.

The Group's financial report also complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets, and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The financial report for the year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors on 20 October 2022.

1.4 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the historical cost convention, except for revaluation of certain financial instruments.

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; and

- on a going concern basis in the belief that the Group will be able to pay its debts as and when they become due and payable; and
- using consistent accounting policies with adjustments to bring into line any dissimilar accounting policies being adopted by the controlled entities.

Remapping of accounts

The Group is in progress of implementing its new general ledger system through which a detailed review was undertaken of the mapping of general ledger accounts to the financial statement line items.

This review identified changes to how the general ledger accounts were mapped to the financial statements. The impact of the reallocation of these accounts between the relevant lines had no impact on the net assets and/or profits of the Group.

The remapping relates to reallocation within categories only and there was no effect on the profit for the year, total assets or liabilities or the net assets of the Group or Bank.

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

1.5 BASIS OF CONSOLIDATION

The Group consists of Police Bank Limited as the ultimate parent entity and its Controlled Entities. The Group's financial statements incorporate the financial statements of the Bank and its Controlled Entities (its subsidiaries). Control is achieved where the Group is exposed to, or has rights to, variable returns from its involvement with the subsidiary and can affect those returns through its power over the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the Group's statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income, and expenses are eliminated in full on consolidation.

The key subsidiary of the Group is Chelsea Wealth Management. The Group owns 80% of the share capital and the investment meets the definition of control prescribed above. The Group also is a 100% beneficiary of PCU 2009-1 Trust.

Refer to note 16 investment in subdiaries, for more details.

1.6 SECURITISATION TRUST CONSOLIDATION

The Bank 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 the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements.

The Bank continues to manage these loans and receives all residual benefits from the Trust and bears all losses should they arise. Accordingly,

- The Trust meets the definition of a controlled entity; and
- 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.

1.7.1 NEW ACCOUNTING STANDARDS AND AMENDMENTS THAT ARE EFFECTIVE IN THE CURRENT FINANCIAL YEAR

There have been no other new or revised accounting standards or interpretations that are effective from the year beginning on 1 July 2021 which materially impact the financial results.

Where applicable, comparative figures have been updated to reflect any changes in the current period.

1.7.2 NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

STANDARD/AMENDMENT	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER
AASB 17 Insurance Contracts and AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts	1 January 2023
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128, AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections and AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2025 (Editorial corrections in AASB 2017-5 applied from 1 January 2018)
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
AASB 2022-1 Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information	1 January 2023

1.7.3 NEW AND REVISED INTERNATIONAL ACCOUNTING STANDARDS AND INTERPRETATIONS ON ISSUE BUT NOT YET EFFECTIVE (CONTINUED)

In addition, at the date of authorisation of the financial statements the following IASB Standards and IFRS Interpretations Committee Interpretations were on issue but not yet effective, but for which Australian equivalent Standards and Interpretations have not yet been issued:

STANDARD/AMENDMENT	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER
Editorial corrections	January 2022

1.8 INTEREST INCOME

Interest income is recognised, in the statement of profit or loss and other comprehensive income, as it accrues, using the effective interest rate method, in accordance with AASB 9.

This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Loans and advances, credit cards and overdrafts

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. For non-performing loans interest is charged to the account but is deemed to have insufficient certainty regarding recoverability to be recognised, and as such is held as 'interest reserved' and not recognised in the statements of profit and loss.

Deferred fees

Loan origination fees including broker commissions and transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability are recognised at inception and included in the carrying amounts. These fees and transaction costs are deferred over the expected life of the instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. This applies to all financial assets or liabilities except for those that are measured at fair value through profit or loss or fair value through other comprehensive income.

Investment securities

Interest on receivables from investment securities are recognised on an effective interest rate basis. Refer to note 2 interest income, for more details.

1.9 INTEREST EXPENSE TERM DEPOSITS

Interest payable on term deposits are 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.

Lease liability

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.

Refer to note 3 interest expenses, for more details.

1.10 NON-INTEREST

income 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 where relevant to reflect the appropriate categories depending on the nature of the income and is recognised either over time or at 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.

Dividend's income

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

Rent and other non-interest income

Rent and other non-interest income are recognised as income when services are rendered.

Refer to note 4 non-interest income, for more details.

1.11 EMPLOYMENT EXPENSES AND ENTITLEMENTS

Wages, salaries, annual leave, and sick leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related oncosts, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

Provision for employee benefits to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the reporting date, calculated at discounted amounts based on expected wage and salary rates including related on-costs.

Superannuation plan

The Group 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. Contributions are expensed as they are incurred.

For the year ended 30 June 2022, if an employee had not made another choice, the Group contributed to The Corporate Master Trust (administered by MLC). The Group 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.

Annual leave and long service leave provision

A provision is recognised in the statement of financial position when the Group 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.

Refer to note 6 employment expenses, for more details.

1.12 OPERATING EXPENSES

Operating expenses are recognised when the Group has incurred the liability for goods and services purchased.

Refer to note 7 operating expenses, for more details.

1.13 INCOME TAXES

Recognition and measurement

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Franking credits

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

Current taxes

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

Impairment

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date for impairment and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group has performed an impairment assessment and did not identify an impairment under AASB 112. Refer to note 9 income taxes, for more details.

Goods and services tax (GST)

Recognition and measurement

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.

Reduced input tax credits

As a financial institution, the Group, is input taxed on all income except for income from commissions and some fee income. An input taxed supply is not subject to goods and services tax (hereafter, 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 is generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to reduced input tax credits (RITC), of which 77.5% of the GST paid is recoverable.

1.14 FINANCIAL ASSETS

The three classification categories for financial assets are;

1. Amortised cost;
2. Fair value through other comprehensive income (FVTOCI); and
3. Fair value through profit or loss (FVTPL).

The classification is based on the business model under which the financial asset is managed and its contractual cash flows.

Business model assessment

The Group determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of assessment is used including:

- How the performance of the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

- How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The Group exercises judgement to determine the appropriate level at which to assess its business models and its business objectives with respect to financial assets.

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the sole payment of principal and interest (SPPI) requirements.

Fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements.

Fair value through profit or loss (FVTPL)

Financial assets that are not measured at amortised cost or FVTOCI are measured at FVTPL. Equity financial assets are measured at FVTPL unless the Group irrevocably elects to present subsequent changes in the fair value in OCI. This election is made on an individual instrument basis and upon realisation of the equity instrument, the fair value gain or loss is transferred from a reserve account directly to retained earnings. The Group has made this election for its equity instruments.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

1.15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

- Notes and coins on hand, unrestricted balances held with central banks;
- Other highly liquid financial assets, such as deposits at call, with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments; and
- Restricted cash is cash held in the PCU 2009-1 Trust as collateral for the trust.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Refer to note 10 cash and cash equivalents, for more details

1.16 INVESTMENT SECURITIES

Investments in debt securities are classified at amortised cost as these are held to collect the contractual cash flows solely from payments of principal and interest.

Subsequent to initial recognition, these are measured at amortised cost using the effective interest method and are assessed for impairment under the expected credit loss impairment model.

Securities sold subject to repurchase agreements are considered to be transferred assets that do not qualify for derecognition when substantially all the risks and rewards of ownership remain with the Group. An associated liability is recognised for the consideration received from the counterparty.

Refer to note 13 investment securities, for more details.

1.17 TRADE AND OTHER RECEIVABLES

Trade and other 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. This is assumed to approximate their fair value due to their short-term nature. The Group 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.

Refer to note 11 trade and other receivables, for more details.

1.18 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 Group provides directly to customers.

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 Group enters into securitisation transactions in which it transfers financial assets that are recognised on its balance sheet. When the Group 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 Group derecognises the asset.

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 Group uses securitisation for funding and liquidity purposes. Details of each of the securitisations entered into by the Group are summarised below.

Internal securitisation

The Group 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 Group 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 2022 was $265.8 million (2021: $386.4 million). The value of associated reserve as at 30 June 2022 was $35.3 million (2021: $36.3 million).

Securitisation program

The Group did not participate in securitisation other than internal securitisation in 2022.

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.

Refer to note 14 loans and advances, for more details.

1.19 PROVISION FOR EXPECTED CREDIT LOSSES

The Group applies a three-stage approach to measuring expected credit losses (hereafter, ECL) for financial assets accounted for at amortised cost and FVTOCI such as loan commitments and debt securities.

For investment securities, the Group has applied the AASB 9 'low credit risk' exemption given their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

STAGE	MEASUREMENT BASIS	PRINCIPLE
STAGE 1	Financial instruments that are not credit-impaired on initial recognition and have not had a significant deterioration in credit quality are classified in this stage. A 12-month collective provision is allocated for these financial instruments.	All balance 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 2	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

Stage 1: 12-months ECL

The Group collectively assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, a collective provision will be recognised for the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.

Stage 2: Lifetime ECL | Not credit impaired

The Group collectively assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not classified as credit impaired. For these exposures, a collective provision is recognised in respect of a lifetime ECL (i.e., reflecting the remaining lifetime of the financial asset).

Stage 3: Lifetime ECL | Credit impaired

The Group identifies, both collectively and individually, ECLs on those exposures that are assessed as credit impaired based on whether one or more events which have a detrimental impact on the estimated

future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised as a collective or individual provision, and interest revenue for stage 3 financial assets are calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Calculation of expected credit losses

The key inputs into the calculation of expected credit losses include the following variables:

• Probability of default (hereafter, PD);

• Loss given default (hereafter, LGD); and

• Exposure at default (hereafter, 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 Group 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 Group 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 expected credit losses includes forward-looking information which is primarily incorporating the rising interest rate market and general macroeconomic conditions and its potential impact on our members and through the PD and LGD rates applied in our models. In applying forward looking information for estimating ECL for retail portfolios, the Group considers probability-weighted forecast economic scenarios using a base case scenario, and upside and downside scenarios. However, significant uncertainty remains in the forward looking economic conditions.

The Group considers that there is still potential for the downside economic scenario to eventuate. Due to the significant uncertainty in the forward looking economic environment, the Group has incorporated a management overlay in its ECL model, to reflect the potential losses that may not be fully captured within the model methodology.

Overlays are determined based on a range of techniques including stress testing, bench-marking, scenario analysis and expert judgement. Overlays are subject to internal governance and applied as an incremental ECL top-up amount to the impacted portfolio segments.

The Group considers the expected credit losses to represent its best estimate of the possible outcomes and is aligned with information used by the Group for other purposes such as strategic planning and budgeting.

Periodically the Group carries out stress testing of more extreme shocks to calibrate its determination of other potential scenarios.

Write-offs and recoveries

When a financial asset is uncollectible, it is written off against the related ECL provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Refer to note 5 impairment expenses, net of recoveries, for more details.

1.20 INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On adoption of AASB 9, the Group made an irrevocable election for its investment in Cuscal shares to be measured at fair value through other comprehensive income (FVTOCI). 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 equity and in other comprehensive income and are not transferred to the profit or loss. When an investment is de-recognised, the cumulative gain or loss in equity is transferred from equity to the Group's retained earnings.

Fair value is determined using a range of 'Level 3' inputs, as set out in note 28.

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

Refer to note 15 equity investment and note 4 non-interest income, for more details.

1.21 INVESTMENT IN CONTROLLED ENTITIES

The Group's investments in controlled entities are held at cost. The carrying amount of the investments in controlled entities is tested for impairment in accordance with AASB 136 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of AASB 139 Financial Instruments, indicates that the investment may be impaired.

In FY22, no impairment tests were required as there were no impairment triggers.

Prior period restatements

The prior period restatement is relating to the write-down of Police Bank's investment in Chelsea Wealth Management arisen from an impairment test comparing the net tangible assets of Chelsea Wealth Management against the carrying value of Police Bank's investment. The impairment test resulted in an impairment loss of $1.7 million as at 30 June 2021.

The following table summarises the impact on the statement of financial position for the Bank for restatements identified during 2022.

	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
	$M	$M	$M
ASSETS			
Investment in subsidiaries	41.8	(1.7)	40.1
TOTAL ASSETS	2,270.4	(1.7)	2,268.7
EQUITY			
Retained earnings	147.9	(1.7)	146.2
TOTAL EQUITY	211.4	(1.7)	209.7

1.22 PROPERTY AND EQUIPMENT

Recognition and measurement

Property, equipment, and leasehold improvements are stated at cost less accumulated depreciation, and impairment losses. Costs include expenditure that is directly attributable to the acquisition or construction of the item.

Land is shown at revalued amounts, being the fair value at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materiality from those that would be determined using fair values at the end of each reporting period. Any revaluations increases / decreases arising on the revaluation of land is recognised in other comprehensive income and accumulated within asset revaluation reserve.

Refer to note 18 Property and equipment, for more details.

Useful lives

All assets have limited useful lives and are depreciated through the statement of profit or loss and other comprehensive income using the straight-line method over their estimated useful lives. The estimated useful lives are between 2.7 and 40 years.

Depreciation rates

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods are reviewed annually to ensure they appropriately reflect residual values and estimated useful lives. When changes are made, adjustments are reflected prospectively in current and future years only. The depreciation rates used for each class of asset are as follows:

DEPRECIATION RATE (% PER YEAR)	2022	2021
	$M	$M
Land	–	-
Buildings	2.5% to 18.75%	2.5% to 18.75%
Equipment	2.5% to 37.5%	2.5% to 37.5%
Leasehold improvements	2.5% to 37.5%	2.5% to 37.5%

Refer to note 8 depreciation and amortisation, for more details.

Impairment

Subsequently, under AASB 136 Impairment of Assets, property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

Assets that do not have independent cash flows are grouped together to form a cash-generating unit. The cash generating unit is defined as Police Bank, as cash inflows from this cash generating unit are dependent on the Group's total assets to generate these cash inflows for its banking business.

A recoverable amount assessment has been undertaken to confirm that the carrying value of assets exceed their recoverable amount as at the end of the reporting year. For financial year ended 30 June 2022, no impairment indicators were noted (2021: none).

Gains or losses arising on the disposal of property and equipment

Any gains or losses are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in statement of profit or loss and other comprehensive income within operating expenses. Refer to note 7 operating expenses, for more details.

1.23 RIGHT-OF-USE ASSETS

Recognition and measurement

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, and any initial direct costs incurred. Refer to note 19 right-of-use assets, for more details.

Lease term

The Group 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.

Short term leases and low-value assets

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss.

Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Useful lives

The expected useful life of right-of-use assets are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually. The estimated useful lives are between 3 and 8 years.

Depreciation

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities

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.

DEPRECIATION RATE (% PER YEAR)	2022	2021
	$M	$M
Right-of-use assets – Property	12.5% to 33.3%	12.5% to 33.3%
Right-of-use assets – Vehicles	25% to 33.3%	25% to 33.3%

Refer to note 8 depreciation and amortisation, for more details.

Impairment

Under AASB 16 Right-of-use assets, the assets, are tested for impairment in accordance with AASB 136 Impairment of Assets. This replaces the requirement to recognise a provision for onerous contracts. The Group has tested its right-of-use assets for impairment on the date of transition and has concluded there is no indication the right-of-use assets are impaired. (2021: Nil)

1.24 INTANGIBLE ASSETS

Recognition and measurement

Per AASB 138 Intangible Assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable that the assets will generate benefits to the Group and are measured at cost less accumulated amortisation and impairment losses.

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. The estimated useful live for software for the current and comparative year was 2.7 years.

Refer to note 20 intangible assets, for more details.

Amortisation rates

Intangible assets are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives as follows:

AMORTISATION RATE (% PER YEAR)	2022	2021
	$M	$M
Customer lists	5.6%	5.6%
Software	37.5%	37.5%

Refer to note 8 depreciation and amortisation, for more details.

Impairment

Subsequently, under AASB 136 Impairment of Assets, the intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

Assets that do not have independent cash flows are grouped together to form a cash-generating unit. The cash generating unit is defined as Police Bank, as cash inflows from this cash generating unit are dependent on the Group's total assets to generate these cash inflows for its banking business.

A recoverable amount assessment has been undertaken to confirm that the carrying value of assets exceed their recoverable amount as at the end of the reporting year. For financial year ended 30 June 2022, no impairment indicators were noted (2021: none).

Software-as-a-service (SaaS)

During the year, the Group reviewed its accounting policy in relation to upfront configuration and customisation costs incurred in implementing software-as-a-service (SaaS) arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. Historical financial information has not been restated due to no retrospective impact identified. Any SaaS related transactions are expensed.

1.25 OTHER ASSETS

Other assets contain prepayment and security deposits. The other assets are stated at their amortised cost. Refer to note 12 other assets, for more details.

1.26 FINANCIAL LIABILITIES

Initial recognition and subsequent measurement

The Group initially recognises deposits, debt securities issued, and subordinated liabilities on the date on which they are originated. All other financial liabilities are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instruments.

A financial liability is measured initially at fair value and, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group classifies its financial liabilities, other than loan commitments, as measured at amortised cost or fair value through profit or loss.

Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

1.27 DEPOSITS

Deposits comprise negotiable certificates of deposit, term deposits, saving deposits, and other demand deposits, securities sold under agreements to repurchase, unsecured guaranteed notes and secured borrowings.

Deposits are recognised at inception at fair value plus directly attributable transaction costs and subsequently at amortised cost. Interest and yield related fees are recognised in the profit or loss based upon the effective interest rate method.

Interest payable on (term) deposits are calculated on the daily balance outstanding and is credited in arrears. Refer to note 21 deposits, for more details.

1.28 TRADE AND OTHER PAYABLES

Trade creditors and accruals represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms

Refer to note 23 trade payables, for more details.

1.29 PROVISIONS

A provision is recognised in the statement of financial position when the Group 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.

Refer to note 24 provisions, for more details.

1.30 LEASE LIABILITIES

Recognition and measurement

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Incremental borrowing rate

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. The Group has not entered into any new leases during the financial year.

Refer to note 25 lease liabilities, for more details.

1.31 BORROWINGS

The funding is initially recognised at fair value less directly attributable transaction costs. The funding is subsequently measured at amortised cost using the effective interest method with any difference between the costs and redemption value recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Refer to note 22 borrowings, for more details.

1.32 RESERVES 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 Group subject that the funds must not be distributed to Members except upon the winding up of the Group.

Business combination 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.

Financial assets held at 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.

Asset revaluation reserve

The fair value reserve includes the cumulative net change in fair value of land, net of applicable income tax. Refer to note 26 reserves, for more details.

1.33 RETAINED EARNINGS

Represents the balance of accumulated profit or losses, attributable to equity holders of the Group, at the beginning of the financial reporting period and at the reporting date, and the changed during the period.

Refer to statement of changes in equity, for more details.

1.34 NON-CONTROLLING INTEREST

The Group recognises a non-controlling interest in Chelsea Wealth Management Pty Limited at the non- controlling interest's proportionate share of the acquiree's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit and loss and statement of financial position respectively.

Refer to statement of changes of equity, for more details.

1.35 USE OF ESTIMATES AND JUDGEMENTS

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:

AREA OF JUDGEMENTS AND ESTIMATES	UNDERLYING ASSUMPTIONS	NOTE
Loans and advances	Measurement of expected credit losses	14
Other investments – Cuscal shares	Fair value	15

2. Interest income

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Loans and advances	51.9	55.7	51.9	55.7
Investment securities	2.9	2.4	2.9	2.4
Credit cards	1.0	1.1	1.0	1.1
Overdrafts	0.6	0.6	0.6	0.6
Novated leases	0.1	0.2	0.1	0.2
Total interest income	56.5	60.0	56.5	60.0

3. Interest expense

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Member deposits	2.8	3.7	2.8	3.7
Term deposits from members	4.6	9.5	4.6	9.5
Term deposits from financial institutions	0.3	0.4	0.3	0.4
Lease liabilities	0.1	0.2	0.1	0.2
Total interest expense	7.8	13.8	7.8	13.8

4. Non-interest income

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Loan fee income	6.0	6.6	3.3	3.6
Commission income	0.9	0.9	0.9	0.9
Dividend income	1.2	0.1	1.2	0.1
Rent income	0.1	0.1	0.1	0.1
Other	0.1	0.1	0.1	0.1
Total non-interest income	8.3	7.7	5.6	4.7

5. Impairment expenses, net of recoveries

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Impairment charge	0.3	(0.2)	0.3	(0.2)
Bad debts recovered	(0.2)	(0.1)	(0.2)	(0.2)
Bad debts written off	0.2	0.5	0.2	0.5
Impairment expenses, net of recoveries	0.3	0.2	0.3	0.1

6. Employment expenses

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
EMPLOYMENT EXPENSES				
Salary and salary related expenses	20.5	19.7	19.3	18.3
Payroll tax and superannuation expenses	2.9	2.2	2.8	2.1
Board and committee related expenses	0.7	0.9	0.7	0.8
Other employment expenses	1.2	1.3	1.1	1.1
Total employment expenses	25 .3	24.1	23.9	22.3

7. Operating expenses

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
OPERATING EXPENSES				
Transaction fee expenses	5.9	6.7	5.9	6.7
Information technology expenses	6.7	4.4	6.7	4.4
Professional and consulting expenses	4.2	2.5	3.9	2.4
Marketing expenses	1.5	1.7	1.5	1.7
Occupancy expenses	0.7	1.2	0.6	1.2
General administration expenses	2.4	2.3	2.1	2.1
Other operating expenses	1.2	1.5	1.1	1.2
Net (gain) on disposal of property and equipment	(0.1)	-	(0.1)	–
Total operating expenses	22.5	20.3	21.7	19.7

8. Depreciation and amortisation

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
DEPRECIATION				
Buildings	0.3	0.3	0.3	0.3
Equipment	0.9	0.6	0.9	0.6
Leasehold improvements	0.1	0.3	0.1	0.3
Right-of-use property assets	0.4	0.6	0.4	0.6
Right-of-use motor vehicle assets	0.1	0.2	0.1	0.2
Total depreciation	1.8	2.0	1.8	2.0
AMORTISATION				
Software	0.4	0.7	0.4	0.7
Customer lists	0.3	0.3	–	–
Total amortisation	0.7	1.0	0.4	0.7
Total depreciation and amortisation	2.5	3.0	2.2	2.7

9. Income taxes

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Profit before income tax	6.4	6.3	6.2	6.0
Income tax at 30%	1.9	1.9	1.9	1.7
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:				
Non-deductible expenses	-	0.1	-	0.1
Rebate on fully franked dividends	0.2	0.1	0.2	0.1
Income tax expense	2.1	2.1	2.1	1. 9
Income tax expense comprises:				
Current income tax expense	0.7	-	0.7	-
Decrease/(increase) in deferred tax assets	(0.4)	(1.2)	(0.4)	(1.2)
(Decrease)/increase in deferred tax liabilities	1.8	(0.9)	1.8	(0.7)
	2.1	(2.1)	2.1	(1.9)

Deferred tax assets and liabilities

The deferred tax assets balance is comprised of temporary differences attributable to:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Provision for impaired loans	2.6	2.4	2.6	2.4
Provision for employee entitlements	0.8	0.8	0.8	0.8
Lease impairment charge	–	0.1	–	0.1
Other	0.8	0.5	0.8	0.5
Total deferred tax assets	4.2	3.8	4.2	3.8
Set-off of DTAs and DTLs	(4.2)	(3.1)	(4.2)	(3.1)
Net deferred tax assets	–	0.7	–	0.7

9. INCOME TAXES Continued

The deferred tax liabilities balance is comprised of temporary differences attributable to:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Property and equipment	(0.1)	0.6	(0.1)	0.6
Finance leases	0.1	0.2	0.1	0.2
Equity investment	4.8	1.9	4.8	1.9
Other	0.1	0.4	0.1	0.4
Total deferred tax assets	4.9	3.1	4.9	3.1
Set-off of DTAs and DTLs	(4.2)	(3.1)	(4.2)	(3.1)
Net deferred tax assets	0.7	-	0.7	–
Movement				
Opening balance of net DTA/(DTL)	0.7	(0.3)	0.7	(0.3)
Recognised in profit or loss	(1.1)	1.5	(1.1)	1.5
Recognised in other comprehensive income	(0.3)	(0.5)	(0.3)	(0.5)
Closing balance of net DTA/(DTL)	(0.7)	0.7	(0.7)	0.7

10. Cash and cash equivalents

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Cash on hand	0.9	1.8	0.9	0.9
Cash at bank	5.3	9.0	5.3	9.0
Deposits at call	35.0	54.0	35.0	54.0
Restricted cash	35.3	36.3	–	–
Total cash and cash equivalents	76.5	101.1	41.2	63.9

The fair value of cash and cash equivalents are not materially different to the carrying amount due to the short-term nature of these instruments. Restricted cash is cash held in the PCU 2009-1 Trust as collateral for the trust.

The Group has financial guarantees in place with a total of $0.1 million. Refer to note 27 maturity profile, for more details.

11. Trade and other receivables

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Payment system clearing account	3.0	2.5	2.8	2.2
Income accruals	1.0	-	1.0	-
Sundry debtors	0.1	0.1	-	-
Total trade and other receivables	4.1	2.6	3.8	2.2

The trade and other receivable amounts are expected to be recovered within the next 12 months.

Refer to note 27 maturity profile, for more details.

12. Other assets

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Prepayments	2.4	2.9	2.3	2.9
Lease security deposits	0.1	0.1	0. 1	0.1
Total other assets	2.5	3.0	2. 4	3.0

Prepayments mature within 12 months and the security deposit on leased premises matures within 3 years.

13. Investment securities

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
State government or Territory Borrowings	35 .0	–	35.0	–
Bank bills and certificates of deposit	150.2	125.1	150.2	125.1
Floating rate notes	299.9	242.3	299.9	242.3
Total investment securities	485.1	367.4	485.1	367.4

As at 30 June 2022 $43.42 million of Floating Rate Notes (FRNs) have been subject to repurchase agreement (2021: $nil) Refer to note 22 borrowings, for more details.

Certificates of deposits contains $20.7 million of security deposits with Cuscal Limited (FY21: $20.7 million), refer to Note 29 for further information on the Cuscal facility.

Refer to note 27 maturity profile, for more details.

14. Net loans and advances

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Home loans	1,781.2	1,669.3	1,781.2	1,669.3
Personal loans	64.9	74.2	64.9	74.2
Credit cards	14.6	15.4	14.6	15.4
Overdraft	4.8	5.7	4.8	5.7
Finance leases	0.9	2.4	0.9	2.4
Commercial loans	0.6	0.8	0.6	0.8
Gross loans and advances	1,867.0	1,767.8	1,867.0	1,767.8
Expected credit loss	(5.1)	(4.8)	(5.1)	(4.8)
Deferred fees	(2.2)	(2.1)	(2.2)	(2.1)
Total net loans and advances	1,859.7	1,760.9	1,859.7	1,760.9

Refer to note 27 maturity profile, for more details.

Credit quality – security held against loans:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Secured by mortgage against real estate	1,781.2	1,669.3	1,781.2	1,669.3
Secured – other	39.5	42.9	39.5	42.9
Unsecured	46.3	55.6	46.3	55.6
Total	1,867.0	1,767.8	1,867.0	1,767.8

Securities

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:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Secured by mortgage against real estate:				
Loan to valuation ratio of less than or equal to 80%	1,394.4	1,296.7	1,394.4	1,296.7
Loan to valuation ratio of more than 80% but mortgage insured	163.3	272.6	163.3	272.6
Loan to valuation ratio of more than 80%and not mortgage insured	24.7	19.7	24.7	19.7
First home buyer government guaranteed loans	198.8	80.3	198.8	80.3
Total secured by mortgage against real estate	1,781.2	1,669.3	1,781.2	1,669.3

14. NET LOANS AND ADVANCES Continued

Concentration of loans by purpose:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Home loans	**1,781.2**	1,669.3	**1,781.2**	1,669.3
Personal loans	**64.9**	74.1	**64.9**	74.1
Credit cards	**14.6**	15.4	**14.6**	15.4
Overdrafts	**4.8**	5.8	**4.8**	5.8
Finance leases	**0.9**	2.4	**0.9**	2.4
Total to households	**1,866.4**	1,767.0	**1,866.4**	1,767.0
Commercial loans	**0.6**	0.8	**0.6**	0.8
Total loans and advances	**1,867.0**	1,767.8	**1,867.0**	1,767.8

Geographical concentration:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
New South Wales	**1,468.6**	1,402.1	**1,468.6**	1,402.1
Australian Capital Territory	**191.7**	190.4	**191.7**	190.4
Tasmania	**91.2**	85.2	**91.2**	85.2
Other States	**115.5**	90.1	**115.5**	90.1
Total	**1,867.0**	1,767.8	**1,867.0**	1,767.8

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

	GROUP & BANK 2022			GROUP & BANK 2021		
	GROSS CARRYING VALUE	ECL ALLOWANCE	CARRYING VALUE	GROSS CARRYING VALUE	ECL ALLOWANCE	CARRYING VALUE
	$M	$M	$M	$M	$M	$M
Home loans	**1,781.2**	**2.8**	**1,778.4**	1,669.3	2.5	1,666.8
Personal loans	**64.9**	**1.6**	**63.3**	74.1	1.8	72.3
Credit cards	**14.6**	**0.5**	**14.1**	15.4	0.3	15.1
Overdrafts	**4.8**	**0.2**	**4.6**	5.7	0.2	5.5
Finance leases	**0.9**	–		2.4	–	2.4
Total to households	**1,866.4**	**5.1**	**1,861.3**	1,767.0	4.8	1,762.2
Commercial loans	**0.6**	–	**0.6**	0.8	–	0.8
Total	**1,867.0**	**5.1**	**1,861.9**	1,767.8	4.8	1,763.0

14. NET LOANS AND ADVANCES Continued

An analysis of the Group'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.

	GROUP & BANK 2022				GROUP & BANK 2021			
	STAGE 1 12 MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL	STAGE 1 12 MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
	$M	$M	$M	$M	$M	$M	$M	$M
Home loans	**0.4**	**0.1**	**0.3**	**0.8**	0.5	0.1	0.4	1.0
Personal loans	**0.2**	**-**	**0.4**	**0.6**	0.3	0.1	0.7	1.0
Credit cards	**0.1**	**-**	**0.1**	**0.2**	0.2	–	0.1	0.3
Overdrafts	**–**	**-**	**-**	**-**	0.1	0.1	–	0.2
Finance leases	**–**	**-**	**-**	**-**	-	–	–	-
Total to households	**0.7**	**0.1**	**0.8**	**1.6**	1.1	0.3	1.2	2.5
Management overlay	**2.1**	**0.8**	**0.6**	**3.5**	1.4	0.5	0.4	2.3
Total loans and advances	**2.8**	**0.9**	**1.4**	**5.1**	2.5	0.8	1.6	4.8

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

	GROUP & BANK 2022							
	GROSS LOANS	STAGE 1 ECL. PROV	GROSS LOANS	STAGE 2 ECL. PROV	GROSS LOANS	STAGE 3 ECL. PROV	GROSS LOANS	TOTAL ECL. PROV
	$M	$M	$M	$M	$M	$M	$M	$M
Opening Balance as at 30-June-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)	-	1.6	-	1.8	-	-	-
Stage 2	10.3	-	(11.1)	-	0.8	-	-	-
Stage 3	3.7	-	0.3	-	(4.0)	-	-	-
Net re-measurement on transfers between stages	-	0.4	-	-	-	(0.4)		-
Net assets originated	81.3	(0.1)	(4.7)	-	(2.2)	-	74.4	(0.1)
Movements due to risk parameters & other changes	-	-	-	-	-	-	-	-
Loan impairment expense for the year	-	0.4	-	-	-	(0.4)	-	(0.1)
Write-offs	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.2)
Closing Balance 30-Jun-2021	1,760.5	2.5	2.1	0.7	5.3	1.6	1,767.9	4.8
Transfers to/(from)								
Stage 1	(2.8)	-	1.2	-	1.7	-	-	-
Stage 2	1.4	-	(1.6)	-	0.3	-	-	-
Stage 3	1.6	-	0.4	-	(2.1)	-	-	-
Net re-measurement on transfers between stages	-	-	-	0.2	-	0.1	-	0.2
Net assets originated	101.3	0.3	(0.4)	-	(1.7)	-	99.3	0.3
Movements due to risk parameters & other changes	-	-	-	-	-	-	-	-
Loan impairment expense for the year		**0.3**	**(0.4)**	**0.2**	**(1.8)**	**(0.0)**	**99.3**	**0.5**
Write-offs	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.2)
Closing Balance 30-Jun-2022	**1,862.0**	**2.8**	**1.7**	**0.9**	**3.3**	**1.4**	**1,867.0**	**5.1**

Stage 1 include a provision of $0.2 million for undrawn balances (FY21: $0.3 million)

15. Equity investment

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Shares in Cuscal Limited	9.7	10.3	9.7	10.3
Total equity investment	9.7	10.3	9.7	10.3

The above equity investment is held at fair value through other comprehensive income (FVTOCI).

Cuscal is an unlisted public company. Under Cuscal's constitution there are no limitations as to who the Group may sell its shares to, however, Cuscal is primarily owned by mutual Authorised deposit-taking institutions (ADIs) and trading in its shares is very limited and information on such trading is not publicly available.

The Group has designated the shares in Cuscal Limited at FVTOCI from 1 July 2019, because the investment is held to enable the Group to receive essential banking services, rather than with a view to profit on subsequent sale, and there are no plans to dispose the investment during the short term. These shares are not publicly traded and are not redeemable.

The Group has determined the fair value of its shares in Cuscal using level 3 unobservable fair value techniques based on the latest audited financial statements, and recent share transactions (if any).

Refer to note 27 maturity profile, for more details.

VALUATION APPROACH	UNOBSERVABLE INPUTS USED	FAIR VALUE AT 30 JUNE 2022	FAIR VALUE AT 30 JUNE 2021	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
		$'000	$'000	
Measurement of the value of the shares have been made with reference to the net asset, adjusted for goodwill and deferred tax assets, backing per share. The value is taken from the most recent available audited financial statements from the organisation.	Cuscal Net asset backing per share from 2022 audited financial statements. The majority of assets are disclosed at fair value, and for those assets disclosed at amortised cost, it would be reasonable to expect the fair value would be equivalent to cost. 30 June 2022: $1.48 per share 30 June 2021: $1.58 per share	9,671	10,345	An increase/decrease of 10% on the net asset backing per share would result in an increase/decrease in the fair value by $0.97 million (2021: $1.03 million)

Financial assets held at FVTOCI reserve

During the year, the Group recognised $472,301 loss (2021: $743,287 gain) of fair value gains/(losses) on equity instruments at FVOCI in the statements of profit or loss and other comprehensive income, net of tax. Refer to the reserve note 26.

Dividends income from Cuscal

During the year, the Group recognised $1.2 million (2021: $0.1 million) of dividends from equity instruments at FVTOCI in profit or loss.

Refer to the non-interest income note 4.

16. Investment in subsidiaries

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021 RESTATED
	$M	$M	$M	$M
Investment in Chelsea Wealth Management	–	–	3.7	3.7
Investment in PCU 2009-1 Trust	–	–	35.3	36.4
Total investment in subsidiaries	–	–	39.0	40.1

The parent entity of the Group is Police Bank Limited, a public company incorporated.

Details of the Group's material subsidiaries at the end of the reporting period are as

NAME OF ENTITY	PRINCIPAL ACTIVITY	PLACE INCORPORATED	PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY THE GROUP PER 30/06/2022	PROPORTION OF OWNERSHIP INTEREST AND VOTING POWER HELD BY THE GROUP PER 30/06/2022
PCU 2009-1 Trust	Securitisation trust	Australia	100%	100%
Chelsea Wealth Management Pty Limited	Financial planner	Australia	80%	80%

The Group's Investments in subsidiaries are held at cost.

Impairment in Chelsea Wealth Management Pty Limited

For each entity, the carrying amount of the investments in controlled entities is tested for impairment in accordance with AASB 136 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of AASB 139 indicates that the investment may be impaired.

During the 2022 financial year, a prior year restatement relating to accumulated amortisation within Chelsea Wealth Management was identified. This resulted in a significant reduction in the net assets of Chelsea Wealth Management which had resulted in an impairment in the Bank's investment in Chelsea Wealth Management as at 30 June 2021.

Refer to note 1.21, for more details.

17. Financial reporting by segments

The Group does not have any separately reportable segments.

18. Property and equipment

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Land – at fair value	6.6	5.1	6.6	5.1
Buildings				
At cost	11.1	11.1	11.1	11.1
Less: accumulated depreciation	(2.3)	(2.0)	(2.3)	(2.0)
Total buildings	8.8	8.8	8.8	8.8
Total land and buildings	15.4	14.2	15.4	14.2
Equipment				
At cost	6.5	6.9	6.3	6.7
Less: accumulated depreciation	(3.4)	(4.3)	(3.3)	(4.2)
Total equipment	3.1	2.6	3.0	2.5
Leasehold improvements				
At cost	2.3	2.3	2.3	2.3
Less: accumulated depreciation	(2.1)	(2.0)	(2.1)	(2.0)
Total leasehold improvements	0.2	0.3	0.2	0.3
Total property and equipment	18.7	17.1	18.6	17.0

Movements in carrying amounts

A reconciliation of the carrying amount of each class of property and equipment is set out below:

	GROUP				
	LAND	BUILDINGS	EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
	$M	$M	$M	$M	$M
At 1 July 2020					
Opening carrying value	5.1	11.1	3.2	0.5	19.9
Revaluation	-	-	-	-	-
Additions	-	-	-	0.1	0.1
Disposal	-	(1.4)	-	-	(1.4)
Depreciation	-	(0.3)	(0.6)	(0.3)	(1.2)
At 30 June 2021	5.1	9.4	2.6	0.3	17.4
At 1 July 2021					
Opening carrying value	5.1	9.4	2. 6	0.3	17.4
Revaluation	1.5		-	-	1.5
Additions	-	-	3. 4	-	3.4
Disposal	-	(0.3)	(2.2)	-	(2.5)
Depreciation	-	(0.3)	(0.8)	(0.1)	(1.1)
At 30 June 2022	6.6	8.8	3. 1	0.2	18.7

18. PROPERTY AND EQUIPMENT Continued

	BANK				
	LAND	BUILDINGS	EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
	$M	$M	$M	$M	$M
At 1 July 2020					
Opening carrying value	5.1	11.1	3.1	0.5	19.8
Revaluation	-	-	-	-	-
Additions	-	-	-	0.1	0.1
Disposal	-	(1.4)	-	-	(1.4)
Depreciation	-	(0.3)	(0.6)	(0.3)	(1.2)
At 30 June 2021	**5.1**	**9.4**	**2.5**	**0.3**	**17.3**
At 1 July 2021					
Opening carrying value	5. 1	9. 4	2. 5	0. 3	17.3
Revaluation	1. 5	-	-	-	1.5
Additions	-	-	3. 4	-	3.4
Disposal	-	(0.3)	(2.2)	-	(2.5)
Depreciation	-	(0.3)	(0.8)	(0.1)	(1.2)
At 30 June 2022	**6. 6**	**8. 8**	**3. 0**	**0. 2**	**18.5**

Revaluation of land

Land is held at fair value through other comprehensive income (FVTOCI).

The revalued land consists of freehold land, excluding any structural improvements, and has then been apportioned between building parcels. The freehold land represents the land parcel owned by the Group, at 25 Pelican Street, Surry Hills, NSW, 2010.

Management determined that these constitute one class of asset under AASB 13 Fair Value Measurement, based on the nature, characteristics, and risks of the freehold land. The valuations have been based on the current market value of freehold land, taking into consideration the sales of similar land in the area, and are categorised as Level 3 in the fair value hierarchy.

Asset revaluation reserve

An independent valuation was performed by the Valuer General of New South Wales in September 2021, which supports the carrying value. As a result, the Group recognised $1,568,979 (2021: $nil) of fair value gains on land at FVTOCI in the statements of profit or loss and other comprehensive income, gross of tax.

The directors are satisfied that the outcome of these valuations adequately support the land value for the year ended 30 June 2022

Refer to the asset revaluation reserve at note 26, for more details.

19. Right-of-use assets

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Right-of-use assets – property				
At cost	4.9	4.7	4.2	4.1
Less: accumulated depreciation	(2.2)	(1.6)	(1.9)	(1.5)
Total right-of-use assets – property	2.7	3.1	2.3	2.6
Right-of-use assets – motor vehicles				
At cost	0.6	0.6	0.6	0,6
Less: accumulated depreciation	(0.5)	(0.4)	(0.5)	(0.4)
Total right-of-use assets – motor vehicles	0.1	0.2	0.1	0.2
Total right-of-use assets	2.8	3.3	2.4	2.8

Movements in carrying amounts

A reconciliation of the carrying amount of each class of right-of-use asset is set out below:

	GROUP			BANK		
	ROU ASSETS – PROPERTY	ROU ASSETS – MOTOR VEHICLES	TOTAL	ROU ASSETS – PROPERTY	ROU ASSETS – MOTOR VEHICLES	TOTAL
	$M	$M	$M	$M	$M	$M
At 1 July 2020						
Opening carrying value	3.7	0.4	4.1	3.2	0.4	3.6
Additions	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
Depreciation	(0.6)	(0.2)	(0.8)	(0.6)	(0.2)	(0.8)
At 30 June 2021	3.1	0.2	3.3	2.6	0.2	2.8
At 1 July 2021						
Opening carrying value	3.1	0.2	3.3	2.6	0.2	2.8
Additions	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
Depreciation	(0.4)	(0.1)	(0.5)	(0.3)	(0.1)	(0.4)
At 30 June 2022	2.7	0.1	2. 8	2.3	0.1	2.4

20. Intangible assets

Carrying amounts

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Software				
At cost	2.0	2.0	2.0	2.0
Less: accumulated depreciation	(2.0)	(1.6)	(2.0)	(1.6)
Total software	–	0.4	–	0.4
Customer lists				
At cost	6.7	6.7	–	–
Less: accumulated depreciation	(3.2)	(2.9)	–	–
Total Customer lists	3.5	3.8	–	–
Total intangible assets	3.5	4.2	–	0.4

Movements in carrying amounts

A reconciliation of the carrying amount of each intangible asset is set out below:

	GROUP			BANK		
	SOFTWARE	CUSTOMER LISTS	TOTAL	SOFTWARE	CUSTOMER LISTS	TOTAL
	$M	$M	$M	$M	$M	$M
At 1 July 2020						
Opening carrying value	0.9	4.1	5.0	0.9	-	0.9
Additions	0.7	-	0.7	0.7	-	0.7
Disposal	(0.5)	-	(0.5)	(0.5)	-	(0.5)
Depreciation	(0.7)	(0.3)	(1.0)	(0.7)	-	(0.7)
At 30 June 2021	0.4	3.8	4.2	0.4	-	0.4
At 1 July 2021						
Opening carrying value	0.4	3. 8	4.2	0. 4	-	0.4
Additions	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
Depreciation	(0.4)	(0.3)	(0.7)	(0.4)	-	(0.4)
At 30 June 2022	-	3. 5	3. 5	-	-	-

21. Deposits

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Call deposits	1,446.3	1,214.1	1,446.3	1,214.1
Term deposits	601.5	668.6	601.5	668.6
Negotiable Certificates of deposit	57.4	67.2	57.4	67.2
Accrued interest payable on deposit	1.7	2.2	1.7	2.2
Withdrawable shares	0.3	0.3	0.3	0.3
Total deposits	2,107.2	1,952.4	2,107.2	1,952.4

Refer to note 27 for maturity profile of deposits.

22. Borrowings

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Repurchase securities	40.0	–	40.0	–
RBA Term Funding Facility	82.8	82.8	82.8	82.8
Total borrowings	122.8	82.8	122.8	82.8

As at 30 June 2022, the Group has drawn down $82.8m (2021: $82.8,) against the RBA Term Funding Facility. Interest is charged at a fixed rate of 25 basis points for $49m and 10 basis points for $33.8m on the drawn down portion of the facility. The RBA term funding facility is payable in 3 tranches in 6 April 2023, 12 March 2024 and 28 May 2026.

Repurchase agreements represents securities sold under repurchase agreements with the Reserve Bank of Australia. The Bank has pledged $43.42 million of receivables due from financial institutions as collateral as part of entering repurchase agreements as at 30 June 2022.

Refer to note 27 for maturity profile, for more details.

23. Trade and other payables

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Payment system clearing accounts	2.8	10.4	2.8	10.4
Accrued expenses	8.4	5.4	8.2	5.4
Intercompany payables	–	–	1.2	–
Sundry payables	0.2	1.3	0.1	1.1
Total trade and other payables	11.4	17.1	12.3	16.9

The trade and other payables are expected to be paid within the next 12 months. Refer to note 27 maturity profile, for more details.

24. Provisions

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Provision for annual leave	1.4	1.3	1.3	1.1
Provision for long service leave	0.6	1.4	0.6	1.2
Provision for leasehold make good	0.4	0.5	0.4	0.5
Sundry provisions	0.8	0.7	0.8	0.6
Total provisions	3.2	3.9	3.1	3.4

Movements in carrying amounts

A reconciliation of the carrying amount of each class of provision is set out below

	GROUP				
	ANNUAL LEAVE	LONG SERVICES LEAVE	LEASEHOLD MAKE GOOD	SUNDRY	TOTAL
	$M	$M	$M	$M	$M
At 1 July 2020					
Opening carrying value	1.3	1.4	0.5	0.7	3.9
Arising during the financial year	0.4	0.3	-	0.4	1.1
Utilised during the financial year	(0.3)	(1.1)	(0.1)	(0.3)	(1.8)
At 30 June 2021	1.4	0.6	0.4	0.8	3.2

	BANK				
	ANNUAL LEAVE	LONG SERVICES LEAVE	LEASEHOLD MAKE GOOD	SUNDRY	TOTAL
	$M	$M	$M	$M	$M
At 1 July 2020					
Opening carrying value	1.1	1.2	0.5	0.6	3.4
Arising during the financial year	0.4	0.3	-	0.4	1.1
Utilised during the financial year	(0.2)	(0.9)	(0.1)	(0.2)	(1.4)
At 30 June 2021	1. 3	0.6	0.4	0.8	3.1

25. Lease liabilities

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Lease liabilities	**2.9**	4.0	**2.5**	3.5
Total lease liabilities	**2.9**	4.0	**2.5**	3.5

Refer to note 27 maturity profile, for more details.

26. Reserves

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
General reserve	**47.9**	47.6	**47.9**	47.6
Asset revaluation reserve	**1.2**	0.1	**1.2**	0.1
Equity investment revaluation reserve	**4.1**	4.6	**4.1**	4.6
Credit losses reserve	**–**	3.7	**–**	3.7
Business combination reserve	**7.0**	7.0	**7.0**	7.0
Total reserves	**60.2**	63.0	**60.2**	63.0

The reduction in the credit losses reserve reflect the removal of the regulatory requirement to hold a General Reserve for Credit Losses (GRCL) in Prudential Standard APS 220 Credit Risk Management. The updated Standard (effective January 2022), aimed to align more closely to AASB 9 Financial Instruments expected loss approach to provision for credit losses.

27. Financial risk management

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

- Credit risk
- Market and investment 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 Group.

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:

- Management Enterprise Risk Committee: The Management Enterprise Risk Committee incorporates the former Credit Committee, with responsibility for managing and reporting credit risk exposure. Operational reports are scrutinised with exposures monitored against Board determined limits. The determination of the

27. FINANCIAL RISK MANAGEMENT Continued

credit risk of loans in the banking book, ensuring provisioning is accurate and also determines the adequacy of authorisation controls for new loans.

- Asset, Liability, Product and Pricing Committee (ALPPCO): This Management committee consists of Executives and Senior Leadership which meets monthly and has responsibility for product functionality and pricing, 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 ALPPCO.

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:

	GROUP & BANK 2022			GROUP & BANK 2021		
	CARRYING VALUE	UNDRAWN FACILITIES	MAXIMUM EXPOSURE	CARRYING VALUE	UNDRAWN FACILITIES	MAXIMUM EXPOSURE
	$M	$M	$M	$M	$M	$M
Home loans	1,781.2	76.2	1,857.4	1,669.3	82.3	1,751.6
Personal loans	64.9	0.3	65.2	74.2	1.0	75.2
Credit cards	14.6	28.0	42.6	15.4	28.7	44.1
Overdrafts	4.8	21.5	26.3	5.7	21.5	27.2
Finance leases	0.9	-	0.9	2.4	-	2.4
Total to households	1,866.4	126.0	1,992.4	1,767.0	133.5	1,900.5
Commercial loans	0.6	-	0.6	0.8	-	0.8
Total loans and advances	1,867.0	126.0	1,993.0	1,767.8	133.5	1,901.3

The risk of losses on loans is reduced through the nature and quality of security taken. Note 14 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 14.

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, and that the industry is an essential and stable industry. Should Members leave this industry the loans continue, and other employment opportunities are available to the Members to facilitate the repayment of the loans.

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

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

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

Collateral securing loans

A sizeable portion of the loan book is secured against residential property in Australia. The Group 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 Group 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:

INVESTMENTS WITH:	GROUP 2022			GROUP 2021		
	CARRYING VALUE	PAST DUE VALUE	PROVISION	CARRYING VALUE	PAST DUE VALUE	PROVISION
	$M	$M	$M	$M	$M	$M
ADIs rated A-1+ to A-1 (short-term)	76 .8	–	–	98.2	–	–
ADIs rated A-2 (short-term)	58 .8	–	–	66.0	–	–
ADIs rated A-3 (short-term)	9.0	–	–	5.0	–	–
ADIs rated AAA to AA- (long-term)	207.7	–	–	138.1	–	–
ADIs rated A+ to A (long-term)	72 .9	–	–	37.2	–	–
ADIs rated BBB+ to BBB2- (long-term)	131.6	–	–	103.9	–	–
ADIs unrated	5.0			–		
Total	561.8	–	–	448.4	–	–

27. FINANCIAL RISK MANAGEMENT Continued

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 operates a hold to maturity liquid portfolio and 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 ALPPCO.

(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 Group does not trade in financial instruments.

(ii) Interest Rate Risk in the Banking Book

The Group 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 ALPPCO 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.

27. FINANCIAL RISK MANAGEMENT Continued

GROUP 2022	FLOATING RATE	>1-3 MONTHS	>3-12 MONTHS	>1-5 YEARS	NON-INTEREST BEARING	TOTAL
	$M	$M	$M	$M	$M	$M
Cash and cash equivalents	74.4	-	-	-	2.1	76. 5
Trade and other receivables	-	-	-	-	4.1	4.1
Investment securities	-	382.3	102.8	-	-	485.1
Loans and advances	1,726.8	39.3	27.9	65.7	-	1,859.7
Equity Investments	-	-	-	-	9.7	9.7
Total financial assets	1,801.2	421.6	130.7	65.7	15.9	2,435.1
Call Deposits	1,446.3	-	-	-	-	1,446.3
Term Deposits	-	298.8	225.8	76.9	-	601.5
Negotiable Certificates of Deposit	-	57.4	-	-	-	57.4
Withdrawal Shares	-	-	-	-	0. 3	0.3
RBA Term Funding Facility	-	-	-	82.8	-	82.8
Repurchase securities	-	40.0	-	-	-	40.0
Trade and other payables	-	-	-	-	11. 5	11.5
Lease liabilities	-	-	2.9	-	-	2.9
Financial liabilities - on balance sheet	1,446.3	396.2	228.7	159.7	11. 8	2,242.7
Undrawn loan commitments	126.0	-	-	-	-	126.0
Total financial liabilities	1,572.3	396.2	228.7	159.7	11. 8	2,368.7

GROUP 2021	FLOATING RATE	>1-3 MONTHS	>3-12 MONTHS	>1-5 YEARS	NON-INTEREST BEARING	TOTAL
		$M	$M	$M	$M	$M
Cash and cash equivalents	99.3		-	-	1.8	101.1
Trade and other receivables	-	-	-	-	2.6	2.6
Investment securities	-	-	22.0	-	-	367.4
Loans and advances	1,605.8	345.4	23.4	92.4	-	1,760.9
Equity Investments	-	39.3	-	-	10.3	10.3
Total financial assets	1,705.1	-	45.4	92.4	14.7	2,242.3
Call Deposits	1,214.1	-	-	-	-	1,214.1
Term Deposits	-	131.3	405.3	132.0	-	668.6
Negotiable Certificates of Deposit	-	67.2	-	-	-	67.2
Withdrawal Shares	-	-	-	-	0.3	0.3
RBA Term Funding Facility	-	-	-	82.8	-	82.8
Trade and other payables	-	-	-	-	17.1	17.1
Lease liabilities	-	-	4.0	-	-	4.0
Financial liabilities - on balance sheet	1,214.1	198.5	409.3	214.8	17.4	2,054.1
Undrawn loan commitments	133.5	-	-	-	-	133.5
Total financial liabilities	1,347.6	198.5	409.3	214.8	17.4	2,187.6

27. FINANCIAL RISK MANAGEMENT Continued

Management of Interest Rate Risk in the Banking Book

The Bank utilises Change in the Economic Value of Equity (ΔEVE) and Change in Net Interest Income (ΔNII)as its primary IRRBB metrics. The change in Economic Value of Equity (ΔEVE) 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 (ΔNII) measures the changes in Net Interest Income(earnings) and focuses on the impact of changes in interest rates on earnings in the near term.

Hedging

To mitigate this risk, the Bank may enter into interest rate swaps. At 30 June 2022 there were no notional principal amounts of the interest rate swap contracts (2021: nil). There were no hedging instruments as at 30 June 2022 or 30 June 2021. 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.

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.

Economic Value of Equity (ΔEVE) and the change in Net Interest Income (ΔNII), is 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 (ΔNII).

Based on the calculations as at 30 June 2022, the change to the Economic Value of Equity from a 100bp shock (ΔEVE) is 0.19% of capital. The ΔNII impact of a shock is a $6.4m change in net interest income. Both metrics were within risk appetite of the Bank and being actively managed and monitored.

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.

The Bank adopted a Zero Floor rate for Savings and Term Deposit products in its IRRBB assumptions which is market standard for financial institutions of similar size and complexity.

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 Group 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 Group'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 Group's 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.

27. FINANCIAL RISK MANAGEMENT Continued

Maturity profile of financial assets and liabilities

	GROUP 2022					
	LESS THAN 3 MONTHS	>3-12 MONTHS	>1-5 YEARS	>5 YEARS	TOTAL	BALANCE SHEET
	$M	$M	$M	$M	$M	$M
Cash and cash equivalents	76.5	-	-	-	76.5	76.5
Trade and other receivables	4.1	-	-	-	4.1	4.1
Investment securities	100.9	108.6	267.6	8.0	485.1	485.1
Loans and advances	63.7	27.9	66.6	1 ,701.5	1 ,859.7	1 ,859.7
Equity Investments	-	-	-	9.7	9.7	9.7
Total financial assets	245.2	136.5	334.2	1,719.2	2 ,435.1	2 ,435.1
Call Deposits	1,446.3	-	-	-	1,446.3	1,446.3
Term Deposits	285.6	257.6	58.3	-	601.5	601.5
Negotiable Certificates of Deposit	57.4	-	-	-	57.4	57.4
RBA Term Funding Facility	-	49.0	33.8	-	82.8	82.8
Repurchase securities	40.0	-	-	-	40.0	40.0
Trade and other payables	11.4	-	-	-	11.4	11.4
Lease liabilities	-	0.1	1.6	1.2	2.9	2.9
Financial liabilities - on balance sheet	1,840.7	306.7	93.7	1.2	2,242.3	2,242.3
Undrawn loan commitments	126.0	-	-	-	126.0	–
Total financial liabilities	1,966.7	306.7	93.7	1.2	2,368.3	2,42.3

	GROUP 2021					
	LESS THEN 3 MONTHS	>3-12 MONTHS	>1-5 YEARS	>5 YEARS	TOTAL	BALANCE SHEET
	$M	$M	$M	$M	$M	$M
Cash and cash equivalents	101.1	-	-	-	101.1	101.1
Trade and other 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
Equity Investments	-	-	-	10.3	10.3	10.3
Total financial assets	245.3	73.4	304.0	1,619.6	2,242.4	2,242.3
Call Deposits	1,214.1	-	-	-	1,214.1	1,214.1
Term Deposits	131.3	405.3	132.0	-	668.6	668.6
Negotiable Certificates of Deposit	67.2	-	-	-	67.2	67.2
RBA Term Funding Facility	-	-	82.8	-	82.8	82.8
Trade and other payables	17.1	-	-	-	17.1	17.1
Lease liabilities	0.3	0.8	2.9	-	4.0	4.0
Financial liabilities - on balance sheet	1,430.0	406.1	217.7	-	2,053.8	2,053.8
Undrawn loan commitments	133.5	-	-	-	133.5	-
Total financial liabilities	1,563.5	406.1	217.7	-	2,187.3	2,053.8

Operational Risk

The Management Enterprise 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 Group has implemented an Enterprise-wide Risk 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 Group has a compliance program, requiring regular reviews of policies, procedures, and reporting to ensure compliance with legal requirements and Prudential Standards.

Fraud

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

Outsourcing arrangements

The Group 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 Group, 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 Group's computer systems; and
- Manages the supply of Visa Cards and provides Fraud Monitoring services for card transactions.

27. FINANCIAL RISK MANAGEMENT Continued

ETOS Limited

ETOS provides treasury settlements services to the Group.

Ultradata Australia Pty Limited

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

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 Group 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 Group's three-year average net interest income and net non-interest income to the Bank's various business lines.

The Group's operational risk capital requirement was $10.0 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.

	2022	2021
	$M	$M
Tier 1		
Tier 1 common equity	213.6	206.0
Less: prescribed deductions	(10.6)	(14.3)
Net tier 1 capital	203.0	191.7
Tier 2		
Reserve for credit losses[1]	–	7.0
Tier 2 capital	–	7.0
Total capital	203.0	198.7

(1) The APRA definition of reserve for credit losses currently differs from the Accounting Standards.

The reduction in the credit losses reserve reflect the removal of the regulatory requirement to hold a General Reserve for Credit Losses (GRCL) in Prudential Standard APS 220 Credit Risk Management. The updated Standard (effective January 2022), aimed to align more closely to AASB 9 Financial Instruments expected loss approach to provision for credit losses.

The Group 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 Group manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. The Group'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:

2022	2021	2020	2019
18.58 %	19.24%	18.27%	19.12%

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; and
- Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

Internal Capital Adequacy Management

The Group 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.

28. Fair value 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 2022.

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.

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES Continued

	GROUP & BANK 2022				
	CARRYING VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	FAIR VALUE TOTAL
	$M	$M	$M	$M	$M
Cash and cash equivalents	76.5	76.5	-	-	76.5
Trade and other receivables	4.1	-	-	4.1	4.1
Investment securities	485.1	-	485.1	-	485.1
Loans and advances (before provision)	1,864.8	-	-	1,864.8	1,864.8
Equity Investments	9.7	-	-	9.7	9.7
Total financial assets	2,440.2	76.5	485.1	1,878.6	2,440.2
Deposits	2,107.2	-	2,107.2	-	2,107.2
Borrowings	122.8	-	-	122.8	122.8
Trade and other payables	11.4	-	-	11.4	11.4
Lease liabilities	2.9	-	2.9	-	2.9
Total financial liabilities	2,244.3	-	2,110.1	134.2	2,244.3

	GROUP & BANK 2021				
	CARRYING VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 1	FAIR VALUE TOTAL
	$M	$M	$M	$M	$M
Cash and cash equivalents	101.1	101.1	-	-	101.1
Trade and other receivables	2.6	-	-	2.6	2.6
Investment securities	367.4	-	367.4	-	367.4
Loans and advances (before provision)	1,765.7	-	-	1,765.7	1,765.7
Equity Investments	10.3	-	-	10.3	10.3
Total financial assets	2,247.1	101.1	367.4	1,778.6	2,247.1
Deposits	1,952.4	-	1,952.4	-	1,952.4
Borrowings	82.8	-	-	82.8	82.8
Trade and other payables	17.1	-	-	17.1	17.1
Lease liabilities	4.0	-	4.0	-	4.0
Total financial liabilities	2,056.3	-	1,956.4	99.9	2,056.3

29. Standby credit facilities

The Group has the following standby credit facilities:

	CONSOLIDATED ENTITY		POLICE BANK LIMITED	
	2022	2021	2022	2021
	$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 Group has an overdraft facility with Cuscal and maintains a security deposit of $16.78 million (FY21: $16.78 million) with Cuscal to secure this facility and settlement services. No other form of security is provided by the Group.

30. Key management personnel

The directors and other key management personnel of the Group during or since the end of the financial year were:

NON-EXECUTIVE DIRECTORS	POSITION
Peter Remfrey	Chair, Non-executive director
Robert Redfern	Deputy Chair, Non-executive director
Colin Dyson	Non-executive director
Patrick Gooley	Non-executive director
David Hudson	Non-executive director
Nick Kaldas	Non-executive director
Julie Osborne	Non-executive director
Sharon Waterhouse	Non-executive director
Justine Saunders (appointed 20 October 2021)	Non-executive director

EXECUTIVE OFFICERS	POSITION
Greg McKenna	Chief Executive Officer
Dr. Leanne Ward	Chief Financial Officer
Denis Fuelling	Chief People Officer
Rayna Heckenberg	Chief Risk Officer
Nicholas Tseros (appointed 1/11/2021)	Chief Member Solutions Officer
Brian Pereira (resigned 15/9/2022)	Chief Digital & Operations Officer

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

30. KEY MANAGEMENT PERSONNEL Continued

Remuneration of key management personnel

Key management personnel compensation was as follows:

	GROUP & BANK 2022			GROUP & BANK 2022		
	DIRECTORS	OTHER KMP	TOTAL	DIRECTORS	OTHER KMP	TOTAL
	$M	$M	$M	$M	$M	$M
Short-term employee	0.6	2.2	2.8	0.5	2.3	2.9
Post-employment benefits	0.1	0.1	0.2	0.1	0.2	0.2
Other long-term benefits	–	–	–	–	–	–
Termination benefits	–	0.1	0.1	0.2	-	0.2
	0.7	2.4	3.1	0.8	2.5	3.3

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 held on 27 January 2022.

Share options granted to key management personnel

During the year, no employee share options have been granted (FY21: nil).

Transactions with key management personnel

The Group's key management personnel are the individuals responsible for planning, controlling, and managing the Group, being the non-executive directors, Chief Executive Officer, and the Executive Leadership Team.

Loans to key management personnel

The Group has provided several of its key management personnel with loans at rates comparable to the average commercial rate of interest. The loans to key management personnel are secured.

The following table outlines aggregate amounts in respect of loans made to key management personnel of the Group.

	GROUP & BANK 2022			GROUP & BANK 2021		
	MORTGAGES – SECURED	OTHER TERM LOANS	REVOLVING CREDIT FACILITIES	MORTGAGES – SECURED	OTHER TERM LOANS	REVOLVING CREDIT FACILITIES
	$M	$M	$M	$M	$M	$M
Funds available to be drawn	0.1	–	–	0.2	–	0.1
Balance	6.4	–	0.1	8.4	–	–
Amounts disbursed or facilities increased in the year	(2.0)	–	0.1	5.9	–	9.4
Interest and other revenue earned	0.1	–	–	0.1	–	–

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 key management personnel. No loans to directors, other key management personnel, or their close family relatives are impaired.

30. KEY MANAGEMENT PERSONNEL Continued

Other transactions with key management personnel

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

	GROUP & BANK	
	2022	2021
	$M	$M
Term and savings deposits	3.5	2.9
Interest paid	–	–

The Group's policy for receiving deposits from key management personnel 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

Transactions with related parties include deposits from director-related entities or close family members of directors and other key management personnel.

The Group'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 key management personnel.

There are no service contracts to which key management personnel, or their close family members are an interested party.

31. Remuneration of auditors

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Audit and review services, including other statutory services				
Audit and review of financial statements - Group and controlled entities	**202,125**	204,125	**202,125**	204,125
Other non-audit services				
Other services	**63,025**	92,227	**25,237**	22,536
Total auditor's remuneration	**265,150**	296,352	**227,362**	226,661

Statutory services consist of fees for services that are required by legislation to be provided by the auditor, including certain reporting to APRA and the AFSL Form FS71.

Other non-audit services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include accounting advice, taxation, and agreed-upon procedures.

The auditor of the Group is Deloitte Touche Tohmatsu. All amounts include 10% GST.

32. Commitments

Outstanding loan commitments

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Loans approved but not funded	66.4	73.1	66.4	73.1
Undrawn credit commitments	49.5	50.2	49.5	50.2
Loans available for redraw	10.1	10.3	10.1	10.3
Total commitments	126.0	133.6	126.0	133.6

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 Group 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:

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Within 1 year	1.9	1.1	1.9	1.1
1 to 2 years	1.4	0.8	1.4	0.8
2 to 5 years	2.6	0.1	2.6	0.1
Greater than 5 years	–	–	–	–
Total commitments	5.9	2.0	5.9	2.0

33. Cash flow information

Cash flows from operating activities

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

	GROUP		BANK	
	2022	2021	2022	2021
	$M	$M	$M	$M
Net profit for the year	4.3	4.2	4.1	4.1
Bad debts written off	–	0.3	–	0.3
Loss/(gain) on disposal of property, plant and equipment	–	1.5	–	1.4
Depreciation and amortisation	2.5	3.1	2.2	2.7
(Increase)/decrease in receivables	(1.6)	0.5	(1.5)	0.9
(Increase)/decrease in other assets	0.6	–	1.2	–
(Increase)/decrease in net deferred tax assets	0.7	–	0.7	–
Increase/(decrease) in creditors and other liabilities	(5.7)	8.2	(4.5)	7.7
Increase/(decrease) in net deferred tax liabilities	0.7	(0.3)	0.7	(0.3)
Increase/(decrease) in provisions	(0.7)	–	(0.3)	–
(Increase)/decrease in loans and advances	(98.8)	(78.1)	(98.8)	(78.1)
Increase/(decrease) in deposits	154.7	93.2	154.7	93.5
Net cash inflows from operating activities	56.7	32.6	58.5	32.2

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.

34. 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 of 30 June 2022, the Group has no material contingent liabilities which need to be disclosed.

35. Events subsequent to balance date

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2022

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that Police Bank Limited and its Controlled Entities will be able to pay its debts as and when they become due and payable;

b) in the directors' opinion, the attached financial statements for the are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;

c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of Police Bank Limited and its Controlled Entities' financial position and performance, and

d) the directors have been given the declarations required by s.295A of the Corporation Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the directors

Peter Remfrey
Director, Chair
Sydney, 25 October 2022

Robert Redfern
Director, Deputy Chair
Sydney, 25 October 2022

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Tel: +61 (0) 2 9322 7000
www.deloitte.com.au

Independent Auditor's Report to the Directors of Police Bank Limited

Opinion

We have audited the financial report of Police Bank Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2022 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 Report* 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 report 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, 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.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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 report, 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.

Deloitte.

- 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's internal control.

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

- 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'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 report 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 to cease to continue as a going concern.

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

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

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

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
26 October 2022

PoliceBank
The strength of community

Police Bank Head Office
25 Pelican Street
Surry Hills
Sydney NSW 2000

policebank.com.au