

Police Credit Union

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Adelaide SA 5000

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Adelaide SA 5000

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CHAIRMAN'S AND CEO'S REPORT

We are pleased to table the 2023 Annual Report on the operations of Police Credit Union Limited, presenting solid performances and achievements in the face of challenging market conditions. Throughout the reporting period we remained constant in our support of Members during uncertain economic times. Coupled with an unwavering focus on our strategic priorities, these efforts have yielded outstanding results across financial and non-financial measures for the period of review.

Our strategic planning priorities continue to be executed with diligence and care, leading to significant accomplishments for the period of review. We achieved strong and prudent financial performance results, excellent customer experience outcomes, and significant progress in our innovation and improvement roadmap.

Our people, culture, risk, and governance achievements were equally impressive, and we continue to remain attentive and proactive in our commitment to sustainable community and environmental initiatives, for the benefit of our Members.

One of the major highlights of the year was the unveiling of our new corporate branding. This rebranding represents a new and exciting chapter in our organisational journey. Our brand commitment extends not only to our Police heritage and history, but also to remaining contemporary, representative of our diverse customer base, and appealing to a broader target audience.

Our focus remains centred around our goal to provide a customer experience second to none, and we are grateful for the overwhelming support from our Members who have recognised the importance of this brand transformation.

Testimony to the strength of our value propositions to Members, this year we were proud to be awarded the prestigious title of Australia's Best Credit Union in the Mozo Experts Choice Awards for Australia's Best Banking in 2023.

The national title was in addition to Police Credit Union being recognised by Mozo as Home Lender Credit Union of the Year as well as winning the

Fixed Rate Home Loan, Investor Fixed Home Loan, Low-Cost Home Loan and Offset Home Loan categories. We were also the recipient of the Low-Rate Car Loan and Secured Personal Loan award categories. These accolades recognise our dedication to offering highly competitive rates and real value for our Members.

Our financial performance for the period to 30 June 2023 held strong, with Group Profit After Tax ending 4.5% higher than the previous year at \$6.87 million. Member reserves increased to \$112 million, a 5.8% increase on the previous period, and the Group Capital Adequacy Ratio increased to 15.95% as compared to 15.51% for the previous period.

Police Credit Union continues to perform in the upper industry quartile relative to the key financial metrics Return on Assets and Return on Equity Ratios, concluding the period of review at 0.55% and 6.30% respectively.

The organisation returned to a more normalised long-term average growth rate during the period, concluding the year with total assets of \$1.3 billion, representing an overall growth rate of 8.82%. Loan growth was accelerated strategically to close the year at 8.93%, which is slightly above the average annual growth rate of 7.21% achieved since 2007.

Operating efficiency remained strong with the Operating Expenses to Operating Income Ratio concluding the period at 75.04%, and asset efficiency as measured by Operating Expenses to Average Total Assets at 2.11%.

As a customer-owned organisation, our focus on delivering exceptional service and market-leading products remains unwavering. Police Credit Union has exceeded its Customer Satisfaction benchmark since 2009 and recorded a 92.7% result for 2023, consistent with the previous period and underpinned by a best practice Net Promoter Score of 93.7%, and a Member Trust Rating of 94.7% for the period. During the year we welcomed 1,546 new Members and concluded the financial year with 40,600 Members.

True to our mutual framework we ensure that 100% of profits continue to be reinvested back into the business to provide Members with superior services, access to competitive loans and deposits, and investment in capital infrastructure aimed at further enhancing products and services.

As a measure of accountability in delivering quantifiable advantage to Members, each year we calculate the benefit that we have generated which we describe as 'Member Value'. As part of this process, we undertake a comprehensive comparison against the major banks, considering in our calculations, service standards, loan and deposit interest rates, access capability, and fees and charges.

The aggregate quantum calculated in the above analysis is expressed as the average Member Value for the respective financial period. During the reporting period, Police Credit Union achieved a record annual Member Value result of over \$333 per Member, compared to a strategic target benchmark of \$120 per Member.

At the heart of our success is our loyal, dedicated, and professional team. Employee Satisfaction remained strong at an overall 89.59%, showcasing our team's passion for success and commitment to delivering outstanding customer service. This result was buoyed by an Employee Engagement result of 92.46% for the period. We continue to attract top talent, with 36 new employees joining our ranks, solidifying our position as an employer of choice.

Organisational risks were closely monitored and well managed with further initiatives and mitigation strategies implemented across all key risks to ensure the ongoing adequacy and effectiveness of our risk control frameworks. Our Risk-based Culture Index ended the year at 98.3% and we maintained a stable Average Significant Risk Score of 34.5 at year end.

We prioritised effort throughout the reporting period in response to heightened levels of Regulator interaction, reporting requirements, and compliance with new and amended legislation. This included successful transition to the new capital framework for the banking industry.

A rigorous and focussed effort in setting the groundwork around our strategic information technology transformation roadmap, including the successful launch of our new Online Banking and Banking App, and progressing the development of our digital loan and biometric on-boarding projects, resulted in the Innovation Index improving to 93.7 for the period against a strategic target of 90, an increase of 4.6% from the previous period.

Although many other institutions experienced considerable outages and security infractions, our service availability remained robust at 99.7%, even with a surge in transactional activity during the period. This demand included a record 4.9 million Visa transactions, 1.346 million debit transactions online and 267,000 Fast Payments through Osko®.

We continued to experience record levels of fraud and scam attempts, and our security contingencies were able to successfully mitigate significant Member losses despite the heightened fraud activity in the community. Our efforts included significant and heightened staff fraud and scam training and additional education for Members on how to protect their funds and transact safely online.

Police Credit Union remains invested in sustainable strategic community contributions, with a record \$577,000 invested directly into a range of community-based organisations and initiatives.

“Police Credit Union feels like a family. They provide understanding and support. When my life circumstances changed instantly, they automatically managed my banking to reduce that mental load.”

Michaela, Age 44



AUSTRALIA'S BEST CREDIT UNION

Mozo Experts Choice Awards

\$577K

re-invested back into the community

Customer Satisfaction

92.7%

Rating

“It's consistent, trustworthy, knowledgeable and caring service”

Julie, Age 65

Record Visa transactions

4.9 million

Total Group Assets

\$1.3 billion

8.82% Growth Rate

Employee Engagement

92.46%

Member Trust

94.7%

Rating

40,600

Members including 1,546 New Members



“Police Credit Union means being able to buy a house for me and my children on my own — which is everything! The staff were so friendly and helpful and made the experience easier than expected. I am forever grateful!”

Matilda, Age 32

This investment included the important support of numerous first responder organisations as major sponsors of the Police Association of South Australia, the Northern Territory Police Association, SA Police Legacy, the CFS Foundation, and the SA SES Volunteers Association.

Our responsibility of being environmentally friendly and sustainable saw us launch a green waste initiative with EcoCaddy to reduce the amount of waste we send to landfill, and we continued to be a regular participant in KESAB's Adopt-a-Road program. We significantly progressed our carbon-neutral certification with Climate Active during the year. This is the culmination of our effort to become self-assessed carbon neutral, which we achieved two years earlier than planned in 2018.

Police Credit Union remains committed to high standards of corporate governance. We believe this is a cornerstone to our ability to deliver on our purpose and strategy. We recognise that reliability

and trust is at the core of everything we do and that our purpose, values, and culture set the foundations for good conduct. Our core values of superior service, honesty, integrity, and financial prudence, reflect the essential beliefs and culture of the business.

It is the policy of the Board to disclose in its annual report a Corporate Governance Statement, which is tabled further below in this document.

In March 2023 we welcomed Susy Daw as a Non-Executive Appointed Director to the Police Credit Union Board. As an accomplished business leader and company director, Susy's experience in strategy, audit, governance, and risk spans more than three decades. Susy is a risk management professional and business mentor and has worked with leading private and public organisations across tourism, finance and banking, tertiary education, real estate, sport and recreation, transport, the building industry, and at all levels of Government.

The achievements outlined in this report would not have been possible without the trust and support of our Members, business partners, and our loyal and engaged team. We extend our sincere gratitude for your contribution and loyalty.

The outstanding results outlined in this report place Police Credit Union in good stead, and we are well-positioned to continue to execute our long-term strategy for the benefit of all stakeholders.

Together, we will continue to thrive, uphold our values, and deliver unparalleled customer experiences as we remain dedicated to serving our Members and the broader community.

On behalf of the Board, Management, and our Staff we sincerely thank our many Members, friends and business partners for your ongoing support and loyalty, and we look forward to a bright and prosperous future partnership.



A blue ink signature of Mr Alex Zimmermann, consisting of a stylized, cursive script.

Mr Alex Zimmermann
Chairman



A blue ink signature of Mr Costa Anastasiou, consisting of a stylized, cursive script.

Mr Costa Anastasiou
Chief Executive Officer

DIRECTORS' REPORT

The Directors of Police Credit Union Limited (the “Credit Union”) and its controlled entities (together referred to as the “Group”) submit herewith the annual financial report for the financial year ended 30 June 2023. In order to comply with the provisions of the Corporations Act 2001, the Directors’ Report is presented below.

The names and particulars of the Directors of the Credit Union during or since the end of the financial year are:



Alexander Paul Zimmermann
Elected Director and Chairman

FAICD, FGIA, FGLF, Grad. Cert. Business Admin

Alex was elected as a Director on the Police Credit Union Board in 1999.

As the Chairman of Police Credit Union since 2012, Alex offers extensive corporate governance and leadership experience in Board and senior management roles across a range of state and local government, and non-government organisations.

Alex had a successful and decorated career as a South Australian police officer, having commenced as a recruit in 1975 and retiring at the commissioned rank of Chief Inspector in late 2020. As a senior-ranking police officer he was responsible for significant strategic initiatives and operational achievements that included facilitating business process reviews, crisis management, establishing the Electronic Crime Section, and driving organisational change management projects within South Australia Police.

In November 2022, Alex was appointed by the State Government as the Community Recovery Coordinator for the many communities impacted by the River Murray flood event. This follows on from Alex’s extensive work in supporting communities to recover from disasters when he was appointed by previous State Governments as the Local Recovery Coordinator for the Pinery bushfire, Northern Adelaide Plains flooding and the Cudlee Creek (Adelaide Hills) bushfire.

These roles showcased his open and engaging leadership style and strong capacity for decision-making and strategic thinking, combined with competency in establishing and maintaining beneficial and effective relationships with a wide range of stakeholders during emergency and rebuilding phases.

Alex was motivated to become a Police Credit Union Board Member by the desire to make a substantial governance contribution to the strategic performance and effective operations of the credit union, ultimately enhancing the interests of Members and the organisation.

In addition to his extensive leadership and governance experience, Alex has a reputation for meaningfully engaging and supporting communities, as well as developing and maintaining significant and diverse stakeholder relationships – highly valuable leadership skills that develop confidence and commitment amongst the Board, Executive team and staff of Police Credit Union.

Alex is Chairman of the Police Credit Union Board Remuneration and Governance Advisory Committee.

Other Directorships and Memberships:

- Chair, Workskil Australia (joined January 1995 and appointed Chair in 2004)
- Deputy Chair, Lutheran Community Care (appointed June 2022)
- Member, Barossa Hills Fleurieu Local Health Network governing board (appointed July 2023)
- Fellow, Australian Institute of Company Directors
- Fellow, Governance Institute of Australia
- Fellow, Governor’s Leadership Foundation
- Member, Australian Institute of Emergency Services.



Michael John Fisher

Elected Director and Deputy Chairman

FAICD, B. Policing (Invest), Dip. Justice Admin., Grad. Cert. Applied Management, Grad. Cert. Business Admin

Mick was elected as a Director on the Police Credit Union Board in 2000.

Mick brings 43 years of extensive operational police experience to his role as Director and Deputy Chairman of Police Credit Union. For the past 20 plus years, Mick has diligently served the Credit Union and our membership. He previously served as Deputy Chairman between 2006 and 2010, before being appointed Deputy Chairman again in 2012.

Over four decades as a Police Credit Union Member provides Mick with significant insight when it comes to the importance of our core membership – Police, Nurses and other emergency service workers – and he has drawn on his own sector knowledge to assist in the development of strategies to attract new Police Credit Union Members from the broader emergency services sector.

During his impressive career in South Australia Police, Mick has served as the Officer in Charge of Criminal Investigation Branches, Crime Gangs Task Force, and the Serious and Organised Crime Branch. In these areas he gained, experience in complex criminal investigations, including cyber and financial crime. At the height of the COVID-19 pandemic in 2020, he served as Executive Officer in the Police Operations Centre, where he played a key coordination role in South Australia's operational response and management of enforcement operations across the state.

His leadership skills in ensuring organisational continuity and state emergency management experience gained through these positions translate seamlessly to his role as Director and Deputy Chairman of Police Credit Union.

Mick is currently a Detective Chief Inspector in South Australia Police and has been an active volunteer in the local community in the area of sports/leisure administration and coaching. Mick is Chairman of the Police Credit Union Board Risk Committee and a Member of the Board Remuneration and Governance Advisory Committee.

In November 2022, Mick was elected to the City of Onkaparinga, the largest Council in South Australia, as a Councillor. Later that month, he was elected by the Chamber as Deputy Mayor. Mick also has membership to various forums and committees. His experience in governance holds him in good stead for his duties.

Other Directorships and Memberships:

- Councillor, City of Onkaparinga
- Deputy Mayor, City of Onkaparinga
- Fellow, Australian Institute of Company Directors
- Fellow, Australian Institute of Governance
- Secretary, Police Commissioned Officer's Mess Incorporated
- Member, South Australian Sea Rescue Squadron
- Member, Wallaroo Sailing Club.



Peter John Alexander

Elected Director

LLB, MAICD, Cert. Police Studies, Grad. Cert. HR Management, B. Law, Grad. Dip. Legal Practice

Peter was elected as a Director on the Police Credit Union Board in 2008.

Peter has an impressive history of work as a lawyer and police officer, including 20 years as a detective with South Australia Police.

He worked as part of the Major Crime Squad for 15 years at the rank of Detective Sergeant and was then seconded to the Police Association of South Australia where he served as President for 17 years. During that time, he was also appointed the National President of The Police Federation of Australia, representing all Australian Police for more than a decade. This highly coveted role has provided Peter with high level management skills gained from deep insight into the law enforcement sector, the particular issues confronting police officers at all ranks and positions and assisting Police Credit Union to support these officers with their financial needs.

Working as a lawyer since 2008, Peter has developed extensive experience in most areas of the law, with a particular speciality in Industrial

Relations as well as negotiation experience in many areas, including Government Relations and advocacy. These skills continue to greatly assist Police Credit Union for engagement with Government, regulatory bodies and our partners.

In addition to being awarded the Australian Police Medal, Peter has also received the National Medal and the Centenary Medal. He is a Life Member of the South Australian National Football League and the South Adelaide Football Club in recognition of his many years of dedicated community service.

Peter is a passionate and dedicated advocate for the people he represents and is equally as passionate when it comes to his long-standing position as a Director on the Police Credit Union Board and supporting the ongoing needs of our Members.

Peter is a member of the Police Credit Union Board Risk Committee and Board Remuneration and Governance Advisory Committee.

Other Directorships and Memberships:

- Member, Australian Institute of Company Directors.



Ann-Marie Chamberlain Appointed Director

GAICD

Ann-Marie was appointed as a Director on the Police Credit Union Board in 2022.

As a highly skilled professional, Ann-Marie possesses extensive experience in business leadership and development, corporate strategy, retail banking, financial management and reporting, as well as risk management.

Her passion for customer and employee experience is something that fits naturally with the values and purpose of Police Credit Union, she brings to the Board more than 15 years' executive experience in Banking and Wealth Management.

Ann-Marie spent more than five years as State General Manager for a large Australian financial institution, where she was responsible for the leadership of the retail banking division, including revenue growth, business profitability, product penetration, customer experience and employee engagement.

She was subsequently promoted to a senior executive role where she led the transformation of the Small Business Target Operating Model before spending more than four years as General Manager Wealth, Personal Banking.

Ann-Marie is also a previous State Winner in the Telstra Business Women's Awards (Corporate & Private Sector category) and a recipient of a Centenary Medal for Leadership in the Community.

Adding to her impressive list of credentials, Ann-Marie has a personal understanding of the many complex issues facing police, as the daughter and wife of retired police officers. Ann-Marie is a long-standing member of Police Credit Union, having joined in 1981.

Her passion for giving back to the community has seen her serve on the Volunteering SA/NT Board for more than five years, including the role of Chair since October 2019. She has also been Trustee for Kalyra Communities, a provider of aged care, retirement living and affordable housing, for the last four years.

Ann-Marie is a member of the Police Credit Union Board Risk Committee and Board Audit Committee.

Other Director and Memberships:

- Graduate, Australian Institution of Company Directors
- Chair, Volunteering SA/NT
- Member People, Remuneration & Governance Committee, Volunteering SA/NT
- Trustee, Kalyra Communities
- Member Customer Experience Committee, Project Control Group & Clinical Governance Committee, Kalyra Communities
- Member Culture, Remuneration & Nominations Committee, Bedford Group.



Susy Daw Appointed Director

GAICD

Susy was appointed as a Director on the Police Credit Union Board in 2023.

As an accomplished company director and successful local businesswoman, Susy's experience in strategic, audit and governance risk matters spans almost three decades.

Susy has been a risk management consultant and business mentor with her own business, MQM Business Consultants, and has worked with leading private and public organisations across tourism, finance and banking, tertiary education, real estate, sport and recreation, transport, the building industry, and all levels of Government.

She has more than 18 years' experience as a facilitator for the Australian Institute of Company Directors and teaches Strategy and Risk for the Company Directors Course, Applied Risk Governance and Governance to protect Vulnerable People.

Rounding out her impressive list of credentials, Susy has also worked in clinical and management roles in the Healthcare Sector, having worked as

a registered general and paediatric nurse in public and private sector hospitals, and trained at the Adelaide Children's Hospital.

Susy is a member of the Police Credit Union Board Risk Committee and Board Audit Committee.

Other Director and Memberships:

- Deputy Chair on the Women's and Children's Health Network
- Director of Anglicare SA
- Board Member of St Andrew's Hospital
- Board Member of St Andrew's Hospital Foundation
- Member of the University of Adelaide Council Risk Committee
- Graduate, Australian Institute of Company Directors
- Fellow, Governor's Leadership Foundation
- Authorised Marriage Celebrant
- Member, Australian Federation of Civil Celebrants.



Kathryn Anne Presser AM Appointed Director

BA (Acc), Grad. Dip. CSP, MBA, FCPA, FAICD, FCIS, FGIA

Kathryn was appointed as a Director on the Police Credit Union Board in 2015.

Kathryn has extensive experience in financial, accountancy, risk and strategic planning aspects of private, public, not-for-profit and government agencies. She has over 30 years' experience working in senior management roles, including as CFO/Company Secretary at ASX Top 100 listed Oil and Gas Exploration and Production company, Beach Energy Limited.

Her strong leadership and communication skills have been further refined by serving nearly 42 years part-time in the Australian Army, where she currently holds the commissioned rank of Major. Kathryn has previously served as a Member of Council at the University of Adelaide and was Chair of the Finance Committee, where she oversaw significant change to their Financial Reporting and Governance oversight to incorporate more transparency. She has previously been a member of the Advisory Board for the South Australian Government Financing Authority and a Non-Executive Director with the Australian Institute of Management.

In Kathryn's Director role at Police Credit Union, she brings a sound understanding of the challenges faced in the Financial Sector from skills she brings to the Board as a Non-Executive Director on the Board of Funds SA. She was awarded a Member of the Order of Australia (AM) for the 2022 Queen's Birthday Honours and awards in recognition of her services to Accountancy and her extensive community work. In 2023, Kathryn

was appointed as a member of the Board of the National Reconstruction Fund. Kathryn is Chairman of the Police Credit Union Board Audit Committee and a Member of the Board Remuneration and Governance Advisory Committee.

Other Directorships and Memberships:

- Non-Executive Director, Australian Energy Market Operator (AEMO)
- Member of the Audit and Risk Committee, Australian Energy Market Operator (AEMO)
- Non-Executive Director, Funds SA
- Member, Board of the National Reconstruction Fund
- Chair of the Audit and Risk Committee, Funds SA
- Independent Chair, Risk and Performance Committee, South Australian Department of Treasury and Finance
- Independent Chair, Risk and Performance Committee, South Australian Department of Energy and Resources
- Council Member, Walford Anglican School for Girls
- Chair of the Finance Committee, Walford Anglican School for Girls
- Director, KP Advisory Pty Ltd
- Director, Business Activators Pty Ltd
- Director, Rowing SA
- Fellow, Australian Institute of Company Directors
- Fellow, Australian Society of CPAs
- Fellow, Chartered Institute of Company Secretaries
- Fellow, Governance Institute of Australia.



Peter Damian Schar Elected Director

FAICD, FAIES, Adv. Dip. Public Safety (Emergency Management)

Peter was elected as a Director on the Police Credit Union Board in 1998.

Peter has been a member of Police Credit Union since commencing his policing career in 1972, where he gained experience in major project and emergency management skills. Driven by a passion to support the growth and sustainability of Police Credit Union, Peter was elected to the Board in 1998. Since that time, he has contributed to policy development and organisational strategy which supports Members with receiving superior banking and insurance products that support their financial aspirations.

As a long-standing Director, Peter has a broad understanding of the financial, governance, risk and regulatory environments in which the credit union operates. He was actively involved in the review and confirmation of the credit union's

strategic direction, which establishes a roadmap to ensure highly successful operations continue.

During his 43 years as a police officer with South Australia Police, Peter lived and worked in various regional and metropolitan locations. As a Detective he spent considerable time investigating serious fraud cases, including one of Australia's longest and most complex superannuation fraud matters. His experience meant he was able to identify areas of weakness in the management and auditing of superannuation and ultimately led to legislative and compliance improvements to better protect member funds.

As a Project Manager, Peter developed and introduced the Incident Command and Control System, a standardised model of management to support the resolution of emergencies and disasters. That framework has subsequently

Peter Damian Schar Continued...

become the Australian police standard for incident management. Other projects included introducing and standardising the use of spatial and information management technologies, and web-based communication tools to support across government and industry response to disasters.

Peter retired in 2015 and was considered one of South Australia's experienced emergency managers, having also supported the development of the State's emergency management arrangements, managed and reviewed multi-agency crisis exercises and investigated or reviewed various disasters.

Peter is actively involved in Police Credit Union's Canoe for Kids event, which raises funds for PoliceLink which supports the Women's and Children's Hospital with charitable contributions and patient engagement activities.

Peter is a member of the Police Credit Union Board Risk Committee and Board Audit Committee.

Other Directorships and Memberships:

- Fellow, Australian Institute of Emergency Services
- Fellow, Australian Institute of Company Directors.



Thomas Mark Scheffler Elected Director

MAICD, Dip. Local Govt., Cert. Police Studies

Tom was elected as a Director on the Police Credit Union Board in 2016.

Tom joined the Board of Police Credit Union to advocate on behalf of Members, staff and their families. As a career police officer with South Australia Police, Tom brings extensive law enforcement experience, well-honed leadership skills and aptitudes that are perfectly suited to his position on the Board. He regularly draws upon these skills to help enhance the credit union's annual performance outcomes for Members.

During his 45 years as a police officer on patrols, Tom spent more than 20 years as a Detective in regional and metropolitan locations, where he developed a comprehensive understanding of the challenges facing different communities. He went on to win a contested position on the Police Association of South Australia's committee and later became membership liaison officer. In 2002 he was appointed Assistant Secretary and elected Secretary in 2013 until his retirement in 2018 at the rank of Senior Sergeant First Class.

As a Police Credit Union Director, Tom brings first-hand understanding and confident communication expertise when it comes to how our organisation can best support police officers, nurses and other emergency services personnel through tailored products and services. Tom has extensive People and Culture experience, which includes the fields of training, industrial relations, disciplinary matters, and Enterprise Agreement Bargaining. During his tenure at the Police Association of South Australia, he developed a comprehensive training package for delegates.

In addition to attending to criminal matters involving members, he also liaised with the highest levels of SA Police regarding disciplinary, worker's compensation, and industrial grievances, as well as negotiating with the State Government of the day in support of Enterprise Bargaining negotiations.

Tom has an extensive history of supporting and giving back to the local community and our Members, which has extended his leadership experience while serving as Deputy Mayor and Councillor within the City of Charles Sturt for over 20 years.

Tom is a member of the Police Credit Union Board Audit Committee and Board Remuneration and Governance Advisory Committee.

Other Director and Memberships:

- Past Member, Police Superannuation Board and Police Dependants Fund
- Member, Australian Institute of Company Directors
- Life Member, Police Association of SA
- Councillor, City of Charles Sturt
- Former Deputy Mayor, City of Charles Sturt
- Member, Asset Management Committee, City of Charles Sturt
- Member, Audit Committee, City of Charles Sturt.

Directors and Director's Meetings

The Board of the Police Credit Union Limited met 12 times during the year ended 30 June 2023. In addition, Directors attended Board Strategy sessions during the year. The following table includes:

- names of Directors holding office at any time during, or since the end of, the financial year; and
- the number of scheduled meetings held during the financial year for which each director was a member of the Board or relevant Board Committee and eligible to attend, and the number of meetings attended by each director.

Director's Meetings

Director	Board		Board Audit Committee		Board Risk Committee		Board Remuneration and Governance Advisory Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Zimmermann	12	12	-	-	-	-	3	3
M Fisher	12	12	-	-	4	4	3	2
P Alexander	12	12	-	-	4	3	3	3
AM Chamberlain	12	12	4	4	4	4	-	-
S Daw*	4	4	2	2	2	2	-	-
K Presser	12	11	4	3	-	-	3	3
P Schar	12	12	4	4	4	4	-	-
T Scheffler	12	12	4	4	-	-	3	3

*Commenced on 16 March 2023

Company Secretary

Costa Anastasiou B.Ec (Acc), FCPA, FAICD, SA Fin, joined the Credit Union in 2002 and was appointed as Chief Executive Officer and Company Secretary on 20 July 2007.

Principal Activities

The principal activities of the Group during the year included the operation as an Authorised Deposit Taking Institution ("ADI") and the provision of insurance services as agent.

Review of Operations

A review of operations of the Company and its subsidiaries ("the Group") during the financial year is contained within the Chairman's and CEO's report.

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

Subsequent Events

Other than referred to in the financial statements or the notes thereto, there has not been any matter or circumstance occurring subsequent to year-end, 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.

Dividends

No dividend has been paid or declared by the Credit Union since the start of the financial year, and the Directors do not recommend the payment of a dividend in respect of the financial year.

Indemnification of Officers and Auditors

Under its constitution the Credit Union must, to the extent permitted by the Corporations Act 2001, indemnify its officers and agents against any liability incurred in conducting the Credit Union's business or exercising the Credit Union's powers. The Credit Union may also indemnify or agree to indemnify any other person. The Credit Union has not during the financial year or since the end of the financial year, indemnified or agreed to indemnify any other person against liabilities incurred.

The Credit Union has entered into and paid premiums to insure against losses that it may sustain arising out of indemnities to officers and agents to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Auditor's Independence Declaration

The Auditor's independence declaration appears on the following page.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191, commencing 1 April 2016, and in accordance with that Corporations Instrument amounts in the Directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The Directors' report is signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Alexander Paul Zimmermann

Chairman

Adelaide, 28 September 2023



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Police Credit Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Police Credit Union Limited for the financial year ended 30 June 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG


Neil Ediriweera
Partner

Adelaide

28 September 2023

OUR EXECUTIVE TEAM



Costa Anastasiou
Chief Executive Officer

Bachelor of Economics (Accounting), FAICD,
FCPA, SA Fin

Costa was appointed Chief Executive Officer and Company Secretary in July 2007, having commenced employment at Police Credit Union in 2002 in a senior management role.

Reporting to the Board, as Chief Executive Officer and Company Secretary, Costa is responsible and accountable for the effective and efficient management of all operational aspects of the organisation, including the successful implementation of strategic, risk, governance and culture frameworks.

Costa is a qualified accountant, having started his career with a Top 4 accounting firm before moving into the banking and finance industry in 1987.

Over more than 36 years of experience working in the financial services sector, he has successfully undertaken diverse senior management responsibilities throughout his career, including accounting, treasury, sales, marketing and strategic roles.

Under Costa's leadership and direction, Police Credit Union has achieved industry-leading outcomes across the five key pillars of its strategic

scorecard, including long-term successes in financial performance, People & Culture, Risk and Governance, Innovation and Improvement, Customer Experience, and Community and Environment. Costa is a strong advocate of the principles of the mutual customer-owned banking model, and its people-first approach.

Since his appointment, and additional guidance by a clear set of core values based on superior service, honesty, integrity, and financial prudence, this values-based approach has seen Police Credit Union grow to serving more than 40,000 Members, assets exceeding \$1.3 billion, and a growing workforce and branches across South Australia and Northern Territory.

Other Directorships and Memberships:

- Director, PCU Services Pty Ltd
- Director, Ian Berry Insurance Services Pty Ltd
- Director and Life Member, SA Policy Legacy Inc.



Paul Modra
Executive Manager, Member Value
and Distribution, Deputy CEO

MBA

Paul joined the Police Credit Union team in 2001.

Paul is an experienced senior manager and committed people leader. With over 25 years' experience in the broader sector and more than two decades with Police Credit Union, Paul has extensive and valued insight when it comes to the needs and wants of our Members.

A key member of our Executive team and Deputy CEO, Paul first started at Police Credit Union as a Branch Manager before being promoted to Executive Manager, Product and Marketing, providing him with diverse experience he continues to draw on in his current role as Executive Manager, Member Value and Distribution. Paul is responsible for developing and implementing our customer relationship strategy, as well as the smooth operation of our Branch Network, Direct Lending Unit, Contact Centre, Retail Operations, Product Management and Relationship Management.

During his tenure at Police Credit Union, Paul has implemented our member life cycle strategy, ensuring all segments of our membership are retained and enhanced. He is also responsible for

the development and management of income and expense budgets relevant to different portfolios, including interest revenue, non-interest income and salary.

His innovative approach, strong leadership skills and commitment to delivering customer excellence at every opportunity has delivered a Customer Satisfaction score consistently above 90% and an average of 5.45 products per member.

Prior to joining Police Credit Union, Paul held a range of roles in the banking sector, including Product Analyst, Assistant Branch Manager, Senior Loans Officer and Member Service Consultant.

He has a Master's Degree in Business Administration from the Australian Institute of Business. Paul is Chair of the Product & Pricing Committee, which monitors and sets competitive interest rates across all lending and deposit products.

Other Directorships and Memberships:

- Director, St Michael's College Adelaide (including Deputy Chairperson and Chairperson of Finance, Audit & Risk Management Committee).



James Came
Executive Manager, Finance

B.Comm, B.Acc, Higher Diploma in Tax Law,
Chartered Accountant

James joined the Police Credit Union team in 2005.

Starting out in 2005 as Manager, Finance, James was promoted to Executive Manager, Finance in 2013. He is responsible for the Finance department, including Treasury, and leads the creation, development, and execution of solutions for accounting policies, internal controls, managing capital, liquidity and funding.

James' expertise ensures that Police Credit Union continues to perform in the upper industry quartile relative to key financial metrics. His contribution and experience ensure the accurate and objective financial analysis to support sound decision making.

James started his career in a leading international audit firm before establishing and managing an independent accounting and taxation consultancy. He has also worked as a senior income tax specialist within the banking and insurance industries before joining Police Credit Union.

His experience included exposure to a diverse client base in mining finance, manufacturing, chemicals and the insurance industry. He offers experience in accounting, regulation, taxation and finance matters within the financial services environment. His knowledge of the financial and regulatory framework within which Police Credit Union operates is invaluable to the Financial and Regulatory reporting requirements and Taxation Compliance obligations.

James has Bachelor Degrees in Commerce and Accounting, and a Higher Diploma in Tax Law and is a member of the Institute of Chartered Accountants.

James is a member of the Product and Pricing Committee and the Chairperson of the Asset and Liability Committee that manages and monitors Police Credit Union's liquidity, interest rate and capital risks.

Other Directorships and Memberships:

- Member, Institute of Chartered Accountants Australia.



Christie Crouch
Executive Manager, Brand,
Marketing and Communications

B.Psych, M.MKT, Graduate Disney Institute

Christie joined the Police Credit Union team in 2010.

With more than a decade of experience gained at Police Credit Union, Christie has played a key role in the organisation remaining the most recognised credit union in South Australia.

Originally appointed in 2010 as Marketing Manager, Christie progressed to Executive Management positions for Marketing, Product and People and Culture from 2011. These roles focussed on employee engagement, training and development, recruitment and retention, and product development. In September 2019 Christie started her current role as Executive Manager, Brand, Marketing and Communications, where she is responsible for brand strategy and development, delivery of compelling customer value propositions, and management of publicity and promotion.

She leads the Marketing team in strategies to attract new customers, with a focus on Member retention as well as supporting our community through a range of community-based sponsorships and events. Since 2006, Police Credit Union has exceeded targets for community

investment spend, contributing over \$6.7 million to community initiatives.

In addition to being a Member of the Product and Pricing Committee and Innovation Committee, Christie chairs the Community, Environment and Employee Engagement and Diversity Committee.

Prior to joining Police Credit Union, Christie held senior Marketing roles in the real estate sector, where she was recognised for her strong leadership ability through numerous industry awards. Christie has a Master's Degree in Marketing and a Bachelor of Psychology from the University of South Australia. She also completed a financial management course through the Melbourne Business School and a Customer Experience Business Development program through the globally acclaimed Disney Institute.

Other Directorships and Memberships:

- Australian Marketing Institute
- Carbon Neutral Adelaide.



Laura Fountain

Head of People and Culture

Diploma, Human Resources Management

Laura joined the Police Credit Union team in 2018.

Laura is an accomplished Human Resources (HR) professional with an impressive track record of over 16 years of experience in the HR industry, including more than 5 years as an integral part of the Police Credit Union team.

Laura first joined Police Credit Union in 2018 as a People and Culture Generalist, before being elevated to People and Culture Manager in 2022 and appointed to her current role in April 2023.

As Head of People and Culture, Laura has responsibility for delivering our People & Culture Strategy. Her primary goal is to attract, nurture, and retain top-tier talent, fostering a workforce dedicated to delivering an unparalleled customer experience. At the helm of her team, Laura spearheads initiatives that include promoting our Employee Value Proposition, handling recruitment, on boarding of new staff, managing employment relations, overseeing performance management, and driving learning and development efforts. She also ensures the alignment of remuneration and benefits, champions workplace health and safety, fosters employee well-being, and orchestrates efforts to enhance employee engagement and retention.

Laura's influence extends beyond her core responsibilities. She is Chair of the Work, Health, Safety & Welfare Committee, underscoring her commitment to fostering a safe work environment. She is also an active member of the Community, Environment, Employee Engagement, and Diversity, the Staff Superannuation, and the Compliance and Operational Risk Committees. Laura is Police Credit Union's Return-to-Work Coordinator, First Aid Officer, and Equal Employment Opportunity Officer, reaffirming her dedication to the holistic well-being of our workforce.

Before joining the Police Credit Union team, Laura spent more than 7 years working in the health and not-for-profit sectors, where she honed her strategic and operational expertise across various HR capacities, from generalist roles to managerial positions. Laura's background also includes a 6-year tenure in recruitment and candidate placement, prior to her transition into HR.

Laura holds a Diploma in Human Resources Management and is accredited in Saville Wave Personality Assessment.

Other Director and Memberships:

- Professional Member – Australian Human Resources Institute.



James O'Loughlin

Executive Manager, Lending and Credit Management

BEc, Grad. Dip. AppFin, MBA

James joined the Police Credit Union team in 2012.

James has an extensive work history that spans more than 30 years in the banking and finance sector, with a proven track record in credit risk management. His advanced analytical skills and strong business and commercial acumen makes him an important part of the Police Credit Union Executive Team.

As Executive Manager, Lending and Credit Management, James is accountable for leading the responsible credit culture and successfully developing, implementing and monitoring credit policy. He manages the Lending and Credit Management teams who play an important role in assessing personal and home loan applications against strict lending criteria, with a focus on achieving sustainable growth in the loan portfolios.

James also leads the Business Banking department, which maintains a strong focus on residential property development and has grown to more than \$120 million.

James is a chartered accountant who started his career with a Big 4 accounting firm before moving to the banking and finance industry. He has held various roles with International and Australian financial institutions, ranging from private banking, business development to senior management positions, as well as experience across accounting, finance, debt restructure, cash management and self-managed superannuation funds.

James has a Master's in Business Administration, a Graduate Diploma in Applied Finance and a Bachelor of Economics from the University of Adelaide. He is Chairman of the Police Credit Union Credit Risk Committee and a member of the Asset & Liability (ALCO) Committee.

Other Director and Memberships:

- Independent Board Member, Law Society, Litigation Assistance Fund.



Angela Scarfo
Head of Risk and Compliance

BA (Legal Studies), LLB, GradDip (Legal Practice)

Angela joined the Police Credit Union team in 2023.

Angela is an accomplished risk leader with a deep passion for effective risk and compliance management. With a wealth of experience spanning nearly two decades, Angela has demonstrated her ability to drive positive change and foster a strong risk culture within a range of organisations.

In her role as Head of Risk and Compliance at Police Credit Union, Angela ensures our risk management framework is robust and aligned with industry best practice. Her area of responsibility includes business continuity management, fraud management and the oversight of corporate insurances and governance. As a member of the Executive Management Team, Angela ensures risk and compliance management is integrated into our strategic direction and across our business operations to ensure we appropriately address risks, impending issues and meet all legal and regulatory requirements. In addition to leading a team that maintains the physical security of our branch network and head office, Angela is responsible for managing/assisting with Regulator interaction and reporting, and implementation of new and amended legislation and associated staff training across our organisation. This involves

overseeing the delivery of extensive fraud and scam awareness training, along with risk management and compliance education. She is also Chair of the Compliance and Operational Risk Committee.

Prior to joining Police Credit Union, Angela worked in senior Risk Management roles in the commercial sector and with leading superannuation funds, as well as in private practice as a lawyer in the areas of Real Estate and Risk Management.

She has a Bachelor of Arts (Legal Studies) from Flinders University, a Bachelor of Laws from the University of Adelaide and a Graduate Diploma in Legal Practice through the Law Society of South Australia. She has undertaken professional development through the Australian Institute of Company Directors and the Governance Institute of Australia and is a Certified Practising Risk Manager through the Risk Management Institute of Australasia.

Other Director and Memberships:

- Director (and Company Secretary, Chair of the Governance, Risk and Nominations Committee), Australasian Legal Practice Management Association
- Executive member (and Secretary), Risk Management Institute of Australasia.



Ben Stephenson
Executive Manager, Technology and Data

MInfoSysSec, MACS

Ben joined the Police Credit Union team in 2014.

As a critical part of the Police Credit Union senior Executive Team, Ben brings almost 20 years' experience in IT within the mutual banking sector. As Executive Manager, Technology and Data, he heads a team responsible for the security, availability, and integrity of our IT systems and banking platforms, as well as innovation projects.

Ben offers a solid technical background in IT, having worked in frontline support positions earlier in his career before progressing into senior management roles. This diverse range of experience has provided him with a strong background in business processes as well as IT technical skills. Ben continues to champion the need for safe, secure, convenient and reliable IT infrastructure, efficient banking systems and convenient Member access channels across Police Credit Union, including the launch of Fast Payments in 2018, a major Banking App upgrade in 2019, integration of Open Banking in 2021 and most recently a complete Online Banking portal update in 2022. In addition to a range of recent back-end technology enhancements to protect personal information and support our work-from-home employees, Ben has managed various

online back-end security initiatives which have further minimised losses for our Members, despite increased online fraud activity.

Prior to Ben's position with Police Credit Union, he was Network Administrator for a major commercial brand and spent nearly 13 years as Network and IT Systems Manager for a Tasmanian-based leading financial institution. Adding to an impressive skill set, Ben's experience as a chartered accountant for over five years gives him a solid grounding in accounting principles and practices. He has a Master's Degree in Information Systems Security at Charles Sturt University and is completing a Graduate Certificate in Cyber Security Governance at RMIT. His professional development efforts include completion of the Police Credit Union Good to Great Leadership program, graduating from the Tasmanian Chamber of Commerce and Industry Management Training, and recognition as a Microsoft Certified Systems Engineer.

Ben is a member of the Police Credit Union Compliance and Operational Risk Committee and is the Chairperson of our Innovation Committee.

Other Directorships and Memberships:

- Member, Australian Information Security Association.

CORPORATE GOVERNANCE STATEMENT

Police Credit Union is committed to high standards of corporate governance. We believe this is a cornerstone to our ability to deliver on our purpose and strategy. We recognise that reliability and trust is at the core of everything we do and that our purpose, values, and culture set the foundations for good conduct. Notwithstanding that the requirement to table a Corporate Governance Statement is an ASX Listing Rule for listed companies, for the purposes of transparency, better-practice, and ongoing member-shareholder engagement, Police Credit Union is pleased to table an overview of its governance framework, as it has done for many years.

Our core values of superior service, honesty, integrity, and financial prudence reflect the essential beliefs and culture of the business. Our purpose is to improve our Members' lives by providing outstanding value and service that enables them to achieve their financial aspirations. Our strategy is centred around a high-performance framework in areas critical to our long-term success:

- Customer experience
- Financial Performance
- Community and Environment
- People, Culture, Risk and Governance
- Innovation and Improvement.

This statement is accurate and up to date as at 28 September 2023 and has been approved by the Board. Further information relating to the Police Credit Union's corporate governance practices and key governance documents can be found on the Corporate Governance section of our website at: www.policecu.com.au/corporate-governance/.

Police Credit Union is an Authorised Deposit-taking Institution (ADI) authorised and regulated by the Australian Prudential Regulation Authority (APRA). As the holder of an Australian Financial Services Licence and an Australian Credit Licence, the Credit Union is also supervised by the Australian Securities and Investments Commission (ASIC).

Each Director has a statutory requirement under Chapter 2D of the Corporations Act 2001 and other regulatory provisions and these obligations under law are set out as per this Corporate Governance Statement.

Police Credit Union Limited and its Controlled Entities for the Year to 30 June 2023

The Board of Directors has overall responsibility on behalf of the shareholders (Members) for the business of the Police Credit Union Group.

To fulfil this role, the Board develops, approves, and undertakes the setting of organisational strategic direction, the setting of financial and non-financial objectives and metrics, and the monitoring of Management's progress against these plans and objectives, together with operational oversight.

This approach ensures that the Board can apply strong ongoing oversight of compliance with its legal, regulatory and environmental obligations, culture and conduct expectations, together with established Member/customer product and service performance standards and ongoing operational integrity.

The Police Credit Union Board acknowledges its responsibilities under subsection 37BA(1) of the Banking Act 1959. Specifically, each Director is an Accountable Person and has particular responsibilities under subsection 37BA(2) or 37BA(6) of the Act for the oversight of Police Credit Union as a member of the Board. In accordance with the Board Charter, the responsibilities of each Director include:

Providing oversight and approvals and responsibility for:

- Setting the strategic direction of Police Credit Union, and annually reviewing and approving a

3-year strategic business plan which sets out the organisation's core ideology (including core values), envisioned future, major goal(s), and strategic initiatives and tactics

- Overseeing, approving and monitoring financial performance and other management reporting
- Monitoring the effective operation of the Board
- Evaluating the performance of the Board and individual Directors
- Allocating responsibilities to appropriate employees, including in relation to compliance with the Banking Executive Accountability Regime (BEAR)
- Ensuring senior management monitor and manage all material risks consistent with the strategic objectives, risk appetite statement and Board approved policies.

Approval of risk appetite and risk management framework, including responsibility for:

- Developing and approving Police Credit Union's risk appetite statement and communicating this clearly to the CEO
- Approving the Risk Management Framework
- Ensuring the operation's structure facilitates effective risk management and sufficient resources are dedicated to risk management
- Identifying uncertainties, limitations and assumptions attached to the measurement of each material risk

- Ensuring senior management develop and implement appropriate arrangements, systems and controls to enable Police Credit Union to appropriately manage risk
- Ensuring the organisation's assets and operations are not exposed to undue risks through appropriate risk management.

Approval of Internal Capital Adequacy Assessment Process (ICAAP), including responsibility for establishing a policy framework:

- Regarding capital management for maintaining sufficient capital
- On organisational frameworks and risk limits in relation to capital
- For assessing, monitoring and controlling internal capital adequacy, and the calculation of the capital adequacy ratio.

Approval and application of the Remuneration Policy, including responsibility for:

- Reviewing and approving the Remuneration Policy
- Reviewing and approving policies and procedures for the recruitment and retention of Directors and executive-level employees
- Monitoring the effectiveness and implementation of the Remuneration Policy.

Oversight of audit, including responsibility for:

- Ensuring that Police Credit Union's audit functions are carried out by appropriately skilled and qualified persons (whether internal or external)
- Establishing a Board Audit Committee for the review and oversight of matters associated with the ability of Police Credit Union to carry out its regulatory strategy
- Monitoring the effective operation of the Board Audit Committee.

Oversight of compliance, including responsibility for:

- Approving the Compliance Management Framework and Compliance Policy
- Ensuring Police Credit Union develops and

implements arrangements, systems and controls to enable it to comply with its legal, regulatory and industry obligations (complying with the law and adhering to accounting and other industry standards)

- Ensuring the organisation's assets and operations are not exposed to undue regulatory or compliance risks through appropriate compliance management
- Ensuring resources are allocated to establishing, developing, implementing, evaluating, maintaining and improving a robust compliance culture and compliance management framework
- Periodically reviewing the effectiveness of the compliance management framework and forming a view on the compliance culture.

Oversight on risk culture, including responsibility for:

- Leading the development of Police Credit Union's culture by the governing body as a whole, including risk culture
- Assessing and forming a view on the risk culture and the extent to which the culture supports the ability of Police Credit Union to operate within its risk appetite
- Identifying any desirable changes to the risk culture and communicating to senior management steps which need to be taken to address those changes.

The Board has adopted the following statement of functions reserved to it, with the day-to-day management delegated to the Chief Executive Officer and the Credit Union's Management Team. The Board is also responsible for:

- Monitoring the implementation and performance of the Credit Union through agreed goals and strategy
- Assessing performance against Board-approved budgets, targets and key performance indicators
- Overseeing the management of the Credit Union's business
- Overseeing appropriate policies, controls, systems and procedures within the Credit Union to set the risk appetite, manage the risks of its businesses, and compliance with all regulatory

and prudential requirements including, without limitation, work, health, safety, wellbeing, and environmental issues

- Reviewing matters of general Corporate Governance
- Appointing and removing the Chief Executive Officer
- Ensuring appropriate succession planning is in place
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures
- Overseeing, approving and monitoring of financial performance and other management reporting
- Setting delegated expenditure limits
- Ensuring that it strives to continuously improve Corporate Governance performance, standards and practices and in doing so maximising the effectiveness of the Board.

The agreed goals and strategy as outlined above requires the Board on at least an annual basis to engage in strategic planning. This necessitates on an ongoing basis, a review of developments in the economic environment and finance industry, monitoring key business risks, evaluating emerging opportunities, assessing management of all these elements and considering modifications in strategic direction.

The Board acknowledges that it has specific responsibilities and duties in regard to and as it relates to the preparation, approval and presentation of Financial Statements and Reports with reference to the Corporations Act 2001, as follows:

- Financial Statements shall be prepared and tabled in accordance with Chapter 2M of the Corporations Act 2001, Accounting Standards and Interpretations, and in compliance with other requirements of the law. It is the duty and responsibility of each Director to act diligently in considering the accuracy and completeness of the financial statements and, when satisfied, provide approval in the tabling of a Directors' Declaration accordingly
- The Board Audit Committee shall meet regularly and discharge its duties in accordance with its Charter. The Committee will provide a

written update to the Board after each meeting outlining matters considered and identifying any specific issues that require Board attention. Board Audit Committee papers and approved minutes will be made available to Directors via the Directors website

- It is expected that Directors will undertake and attend ongoing professional development and learning to ensure that they are properly and adequately equipped in terms of financial statements knowledge to discharge their responsibilities. The CEO shall be responsible for the coordination of such training
- The CEO shall table an annual financial statements declaration to the Board as an attestation and representation as to the process, detail, content and integrity in the preparation and presentation of the financial statements.

Board Independence, Renewal and Selection

All Board members are independent non-executive Directors. The Board assesses the independence of Directors on an annual basis. A Director will be regarded as independent if that Director:

- Is a non-Executive Director
- Has not been an officer of the Credit Union
- Has within the last three years not been employed in an executive capacity by the Credit Union or any of its subsidiaries
- Has within the last three years not been a principal of a material professional adviser or a material consultant to the Credit Union or any of its subsidiaries, or an employee materially associated with the service provided
- Has not been a material supplier or customer of the Credit Union or any of its subsidiaries, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- Has no material contractual relationship with the Credit Union or any of its subsidiaries other than as a Director of the Credit Union
- Has been free from any interest and any other business relationship which could, or could reasonably be perceived to, interfere materially with the Director's ability to act in the best interests of the Credit Union.

For the financial period to 30 June 2023, the Board has assessed that all Directors are independent, and that they continue to test and challenge Senior Management constructively and exercise independent judgement on matters presented for Board decision.

The Board comprises five Elected Directors who are elected on rotation, and three Appointed Directors. In accordance with the Credit Union's Constitution, the Board has the power to appoint by resolution at any time up to three persons as an Appointed Director.

In the event the Board, in its determination, does not have an ideal inventory of skilled Directors and is unlikely to develop the necessary competency and/or diversity, it has the power to source and appoint a Director, thereby giving the Board the appropriate and enhanced renewal.

The Board requires Directors to have skills, knowledge, and experience which are complementary to the Credit Union's activities and strategy, or have appropriate professional qualifications, and who can bring value and judgement to the Board's deliberations. The Board strives to achieve a balance of skills, knowledge, experience and renewal among its Directors, with the process being formally overseen by the Board Remuneration and Governance Advisory Committee.

It is the Board's view that, collectively, the Directors need to have appropriate skills, tenure, and experience to provide leadership and contribute to the effectiveness of the Board and the success of Police Credit Union. The Board reviews its mix of skills, knowledge, and experience annually, using a skills matrix. These reviews include consideration of future succession plans for Board members and any additional areas of expertise that may be needed or desired by the Board.

The Board, as part of its renewal process, considers the length of service of each Director in conjunction with a skills, knowledge, and experience review, in determining whether Directors have served on the Board for a period which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Credit Union. **For the financial period to 30 June 2023**, the Board has assessed and concluded that no Director has served on the Board for such a period that their independence has been compromised.

The Board has, in accordance with Police Credit Union's Constitution, established a Nominations Panel for the purpose of assessing Director candidates, including those Directors whose term expires at the Annual General Meeting and who are offering themselves for re-election.

The assessment is undertaken with reference to Board-approved Police Credit Union Model Criteria, to determine whether that person has demonstrated an ability to be a Director and is 'fit and proper'. The Nominations Panel consists of four members, being two current Directors and two independent and external persons who possess an overall suitable mix of character, skills, knowledge, and experience to enable an effective assessment of candidates.

Following a detailed assessment, the Nominations Panel must be satisfied that each candidate has demonstrated an ability to be a Director as assessed against the Board-approved Model Criteria and is fit and proper to be, and act, as a Director by reference to the Credit Union's Fit and Proper Policy. During the reporting period,

the Nominations Panel met to review and assess a candidate in respect of an Appointed Director position, and to report to the Board the Panel's assessment of whether the candidate satisfied the Model Criteria.

Each Director enters into a Deed of Director's Terms of Appointment agreement that covers the Director's role, duties and responsibilities, terms of appointment, ongoing education, remuneration, disclosure of outside interests, independence, privacy, and confidentiality obligations. Arrangements for access to information, insurance, indemnity, and access to independent professional advice arrangements are also contained in the Deed.

Following appointment, each Director participates in an extensive induction program to familiarise themselves with the Credit Union's business and strategy and to develop industry knowledge. The information provided includes information about the Credit Union's corporate governance and risk frameworks, policies, organisational structures, and business activities. The induction program also involves one-on-one meetings with Executives, and the Internal Auditor. There is also an induction program for each Board Committee of which a Director becomes a member.

Diversity and Inclusion

Police Credit Union is committed to promoting an organisational culture and workplace that fosters diversity and inclusion across all levels of the business. We achieve this through eliminating stigmas and creating a culture of inclusion through the promotion of education, awareness, and mutual understanding in line with our values and ethics. It is expected that all employees, including Directors, take personal responsibility for fostering a culture of diversity and inclusion, and demonstrate behaviours consistent with our strategy, vision, values, and ethics.

The Board has established a diversity and inclusion policy framework. Police Credit Union will not tolerate unlawful discrimination, harassment, workplace bullying or victimisation, or any behaviour that is inconsistent with our values or ethics.

It is our policy to treat all employees, prospective employees, agents, contractors, customers, suppliers, and members of the community fairly and equally regardless of their race, colour, gender, sexual orientation, age, physical or mental impairment or disability, marital status, parental or carer's status, pregnancy, religious beliefs, socio-economic background, or ethnic, national, or social origin in accordance with the organisation's Fair Treatment and Code of Ethics Policies.

The Police Credit Union Group has consistently maintained full compliance with the Workplace Gender Equality Act 2012 since its inception and with the most recent notice of compliance for the period 2022-2023.

Skills, Knowledge and Experience and Continuing Education

To ensure that Directors of Police Credit Union collectively have the full range of skills needed for the effective and prudent operation of the institution, and that each Director has skills that allow them to make an effective contribution to Board deliberations and processes, each year an analysis is undertaken to monitor a strategic skills map for effective Board renewal, optimum Board composition, and appropriately targeted professional development and governance learning programs. This includes the requirement for Directors, collectively, to have the necessary skills, knowledge, and experience to understand the risks of the institution, including its legal and prudential obligations, and to ensure that the institution is managed in an appropriate way taking into account these risks.

The Board Remuneration and Governance Advisory Committee is responsible for overseeing the annual audit of Director knowledge, skills, and experience. **For the financial period to 30 June 2023**, the most recent results of this assessment indicate that the Board's aggregate knowledge, skills and experience reflects overall performance in the upper quartile of assessment. **During the financial period to 30 June 2023**, the Board also commissioned the engagement of an independent external firm to conduct a Board Skills Competency Matrix. This was completed in July 2023 and, whilst identifying some areas for consideration and opportunities for improvement, revealed no adverse or material findings.

The Board Remuneration and Governance Advisory Committee is responsible for the regular review of Director Professional Development and Learning and must ensure that the continuing education program of learning is appropriate and adequate in enhancing the skills, knowledge, and experience of Directors. In accordance with POL 3010.3 – Responsible Person Learning Policy, all Police Credit Union Directors are expected to actively participate in ongoing professional education programs that includes minimum levels of required structured and unstructured learning, a formal induction program (where relevant) and the provision of regular scheduled training by internal and external experts across various banking and finance disciplines. All Directors must undertake extensive and continuing professional development programs to optimise and enhance their current skills and knowledge. Police Credit Union's policy on Responsible Person Learning, requires all Directors to each complete a minimum of 90 hours of professional development over a triennium period consisting of 35 hours of approved structured learning and 55 hours of approved unstructured learning. **For the financial period to 30 June 2023**, all Directors have completed the mandatory minimum requirement as set out in Board policy.

Board Assessment, Evaluation and Remuneration

In accordance with Board Policy, Directors undertake an extensive evaluation of Performances and Practices covering areas such as accountability to Members, the setting of strategic direction, the establishment and review of Policies, the monitoring of organisational performance, Board composition and operation, attendance and contribution to meetings, Board Processes, Code of Conduct and Compliance and Control. Police Credit Union also undertakes external and independent reviews of its governance arrangements, and comparisons to standards of accepted good practice.

Performance evaluations incorporating the Board and its Committees are conducted annually with results assessed by the Board Remuneration and Governance Advisory Committee and reported to the full Board. The objective of this analysis is to assess and monitor the effectiveness of Director and Board governance practices and measure the ability of the Board to properly function and meet its obligations and identifying and mitigating areas of underperformance.

To ensure ongoing good corporate governance practices, and for the purposes of maintaining an external independent process for regularly assessing and evaluating the performance of the Board and individual Directors, including comparison to standards of accepted good practice, the Board Remuneration and Governance Advisory Committee engage the use of a suitably qualified, credentialled and reputable firm to undertake an independent external assessment of board capability, to ensure that it is fit for purpose having regard to the expectations outlined in paragraph 19 of APRA Consolidated Prudential Standard CPS 510 (Governance), for individual Directors, and the Board as a collective, at least every two years.

The Board Remuneration and Governance Advisory Committee is responsible for the implementation of the Independent Director and Board Assessment, including the review and consideration of findings and recommendations and the remediation of any issues that may emerge from that review, subject to approval by the Board.

The Independent Director and Board Assessment includes and is not limited to the following areas of review; Duties, Responsibilities and Accountabilities, Decision Making, Risk Management and Compliance, Legal, Prudential, and Regulatory Obligations, Strategy, Board Dynamics, Conflict of Interest, Board Meetings and Information, Committees, Chair Performance, and Succession Planning. **During the financial period to 30 June 2022**, the Board commissioned the engagement of an independent external firm to conduct a Board Performance Evaluation.

This was completed in May 2022, and considered by the Board, and revealed no adverse or material findings. The report did however identify a number of better practice opportunities for improvement which have been considered by the Board for implementation. The review is next scheduled for June 2024.

In accordance with Board Policy, the Board Remuneration and Governance Advisory Committee, and ultimately the full Board, undertake extensive annual performance and remuneration reviews of the Chief Executive Officer, Executive-level direct reports of the CEO, and other persons whose activities may in the Committee's opinion, affect the financial soundness of the Credit Union.

Board policy requires that performance development reviews must be undertaken annually and after the conclusion of the financial period, using respective Accountability Statement and Position Performance Profiles, which incorporate Key Performance Indicators (KPIs), both financial and non-financial, that are directly aligned to the Police Credit Union Strategic Plan balanced scorecard.

The objectives of the Board remuneration policy, linked to performance reviews, are:

- To motivate executive and other managers captured by this policy to manage and lead the business successfully and to drive strong long-term organisational growth and performance in line with the strategy and business objectives.
- To encourage conduct and behaviour that supports the desired organisational and risk management culture of the Credit Union.
- To make sure that there is transparency and fairness in remuneration policy and practices.
- To deliver a balanced solution addressing all elements of total pay – base pay and benefits including appropriate superannuation arrangements and attraction and retention strategies.
- To ensure that the Credit Union will meet its obligations under the Banking Executive Accountability Regime (BEAR) and, in particular, its obligations with respect to deferred remuneration where applicable.

In accordance with Board Policy, and **for the financial period to 30 June 2023**, the Board Remuneration and Governance Advisory Committee and Board have satisfactorily undertaken and completed extensive annual performance and remuneration reviews of the Chief Executive Officer, Executive-level direct reports of the CEO and other persons whose activities may affect the financial soundness of the Credit Union.

Fit and Proper

Police Credit Union maintains a robust framework to ensure that individuals appointed to senior positions within the Credit Union have the appropriate fitness and propriety to fulfil their prudential responsibilities.

The framework set out in the Credit Union's Fit and Proper Policy addresses the requirements of APRA Consolidated Prudential Standard CPS 520 (Fit and Proper). Under the policy, all Directors and senior managers need to have, and must continue to demonstrate, the required competencies, character, diligence, honesty, integrity and judgement needed for the effective and prudent operation of the Credit Union.

The policy requires the annual completion of a number of competency, background, and probity checks as part of the assessment process to confirm the person's character, experience and qualifications. The policy also requires annual notification of any relevant directorships, other interests, positions or associations as well as appropriate criminal and bankruptcy checks.

Directors, senior managers and the external auditor are assessed before appointment and then annually. All Directors, senior managers and the external auditor have been assessed as fit and proper.

For the financial period to 30 June 2023, and in accordance with Board policy, all Directors and senior managers have been assessed as meeting the requirements of the Fit and Proper Policy, without exception.

Accountability

In addition to and separate from the above Fit and Proper requirements, Police Credit Union's Directors, Chief Executive Officer, Executive Managers and Internal Auditor have all been appointed as Accountable Persons with APRA, as required by the Banking Executive Accountability Regime (BEAR) and the Banking Act 1959.

Police Credit Union and its Accountable Persons will ensure it meets the additional obligations imposed by this legislation including to, at all times:

- Act with honesty, integrity and with due skill, care and diligence;
- Deal with Regulators in a way which is open, constructive and cooperative; and
- Prevent matters from arising which impact the prudential standing or prudential reputation of Police Credit Union.

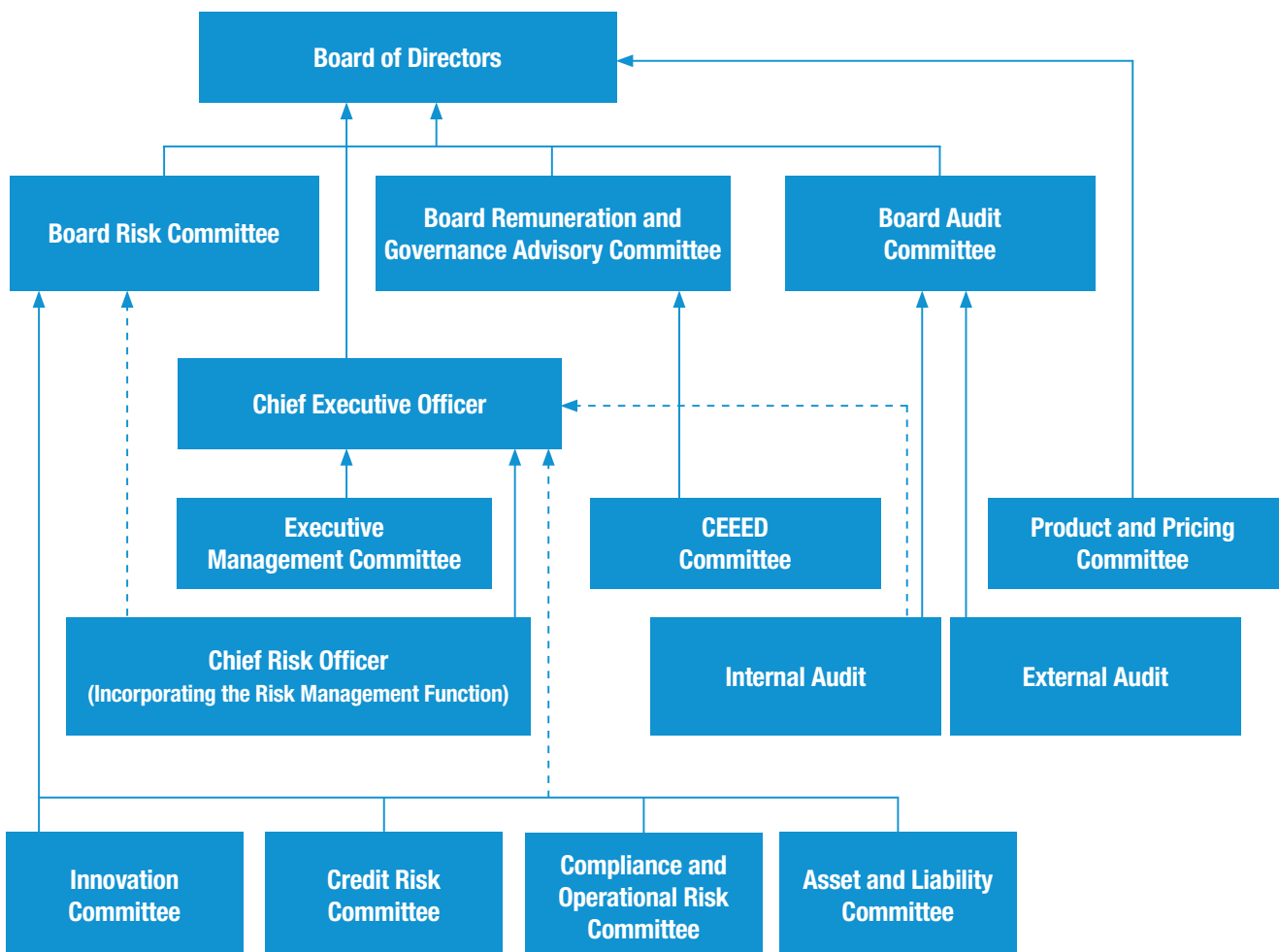
For the financial period to 30 June 2023, and in accordance with Board policy, all Directors and senior managers have been assessed as meeting the requirements of the fit and proper, and BEAR policy, without exception.

Board Processes

The Board has established a comprehensive framework of Board and Management Committees to assist with management of the Police Credit Union Group, with particular emphasis on compliance, internal controls and business risk management, both financial and non-financial. All Committees have written mandates (Charters) and operating procedures. The role and responsibilities of the Board is set out in the Board Charter which is reviewed annually.

Committee Structure

The diagram below details the Credit Union's committee structure as well as the established risk governance structure. The detailed role of each committee and the Credit Union's internal control and Risk Management Framework is provided in the following sections.



Board Remuneration and Governance Advisory Committee

The Board Remuneration and Governance Advisory Committee is a Committee of the Board established in accordance with the Credit Union's Constitution and as required by APRA Consolidated Prudential Standard CPS 510 (Governance). The Committee comprises the Chairman and Deputy Chairman of the Board and three other Directors which include the Chairman of the Board Risk Committee and the Chairman of the Board Audit Committee.

The role of the Board Remuneration and Governance Advisory Committee is set out in a Charter which has been approved by the Board. The Committee is responsible for the review of Governance policies and practices; Board evaluation; CEO and senior management performance, remuneration reviews and succession planning; Director remuneration; Director screening, nomination and induction.

The Committee is responsible for initiating and overseeing the process of annual CEO performance evaluation, remuneration review and succession planning, making recommendations to the Board in accordance with the Remuneration Policy, and has undertaken this process without exception.

The Committee is also responsible for overseeing the process of annual remuneration reviews and performance evaluations of direct reports to the CEO, and other persons whose activities may in the Board Remuneration and Governance Advisory Committee's opinion affect the financial soundness of the Credit Union, and any other person specified by APRA, in accordance with Remuneration Policy, and has undertaken this process without exception.

Board Audit Committee

The Board Audit Committee is a Committee of the Board established in accordance with the Credit Union's Constitution and as required by APRA Consolidated Prudential Standard CPS 510 (Governance). The Board Audit Committee comprises at least four Directors. The Chairperson of the Board of Directors cannot be a member of the Committee.

The role of the Board Audit Committee is set out in a Charter which has been approved by the Board. Its objectives are to enhance the credibility and objectivity of financial reporting and to review the effectiveness of the external and internal audit functions. It aims to provide a link between the Board of Directors and External and Internal Auditors, and reviews and monitors the internal control environment operating within the Credit Union.

As part of its work, the Committee reviews the scope, quality and independence of internal and external audit, and recommends to the Board any change in the appointment of the External Auditor.

Board Risk Committee

The Board Risk Committee is a Committee of the Board established in accordance with the Credit Union's Constitution and is required by APRA Consolidated Prudential Standard CPS 510 (Governance). The Board Risk Committee comprises at least four Directors. The Chairperson of the Board of Directors is not a member of the Committee.

The role of the Board Risk Committee is set out in a Charter which has been approved by the Board. Its objectives are to assess, monitor and review the management and effectiveness of the Credit Union's Risk Management Strategy, Risk Management Framework and Compliance Framework including the oversight of the Compliance and Operational Risk Committee, Credit Risk Committee, Asset and Liability Committee and Innovation Committee.

In addition to overseeing the establishment and implementation of risk management and control frameworks, the Committee is responsible for the oversight and management of risks within the Board's risk appetite as well as approval and recommendation to the Board of risk-based policies and procedures and the implementation of the Business Continuity Plan. The Board Risk Committee meets four times per year and, as part of its responsibilities, reviews Police Credit Union's Risk Management Framework annually.

Internal Control and Risk Management Framework

The Board acknowledges its responsibilities for the oversight of internal controls and the overall Risk Management Framework, including the three lines of defence risk management and assurance model.

The Risk Management Framework, which satisfies the requirements of APRA Consolidated Prudential Standard CPS 220 (Risk Management), is designed to achieve outcomes consistent with the Credit Union's risk-reward expectations and includes the Risk Appetite Statement, incorporating risk triggers and risk tolerances to manage exposures and risk concentrations, and Board approved policies for each of the key risk areas it is responsible for overseeing.

Police Credit Union is a values-driven organisation that advocates the principles of adherence to policies and the application of sound governance practices and operates its business in a conservative manner with its risk appetite set by the Board and integrated with Police Credit Union's strategic objectives.

In assessing strategic initiatives, Police Credit Union employs a balanced and well considered approach and ensures that any associated risks are commensurate with the risk-reward equation and Police Credit Union's appetite for risk. The Risk Appetite Statement and the Risk Management Framework which it supports, underpins fundamental principles of strong capitalisation, robust balance sheet and sound earnings, which protect Police Credit Union. This in turn supports the implementation of a robust and effective organisational wide risk culture which encourages taking appropriate and relevant risks that are adequately rewarded and that support Police Credit Union's strategic direction.

In the delivery and implementation of its strategic objectives, Police Credit Union employs a balanced approach which does not jeopardise the underlying principles of maintaining a strong buffer and stable capital base, and a positive and well-respected reputation that underpins customer and market confidence.

Police Credit Union adopts the position that whether expressed in quantitative or qualitative terms, risk appetite needs to be measurable, and the methodology employed to set, determine and monitor performance against material risks, is premised on that principle.

In managing risk and implementing its strategic objectives, Police Credit Union will:

- Consistently operate in a responsible and financially prudent manner;
- Apply a conservative and prudent approach in setting strategy and pursuing strategic objectives;
- Avoid a speculative or aggressive approach in implementing strategy;
- Maintain and proactively monitor a control environment, that together with practical constraints, minimises risks that might impact on the continuity of its business;
- Make business decisions only after careful consideration of risk, including consideration of the risk-reward equation, and fit with the Credit Union's organisational culture;
- Understand the risks that it takes on undertaking strategic initiatives or exposure to new products and services only as sufficient experience and insight is gained;
- Not conduct trading book activity and not have any foreign exchange or commodity positions;
- Diligently strive to protect and enhance its reputation; and
- Act with integrity, ethics, strong professional standards, and within the legal and regulatory frameworks applying to its business.

Police Credit Union undertakes a detailed review of its overall Risk Management Framework on an annual basis, with identified risks, and the controls in place to mitigate against these risks, being reviewed on a monthly basis by the Executive Management Committee and Board, and then further assessed by Board and Management Committees on a quarterly basis.

During the period, this review did not identify any material exposures for which Police Credit Union does not have adequate controls in place.

As part of the review of the Risk Management Framework, and specifically the key risks to which Police Credit Union is exposed, an ongoing assessment is also undertaken at each Board and Committee meeting as to whether there are any emerging risks for which new or additional controls must now be implemented.

Part of this 'horizon scanning' includes consideration as to whether Police Credit Union is exposed to any environmental or social risks that may be present or emerging. The evaluation undertaken during the period assessed Police Credit Union as not having any material exposure to environmental or social risks.

Notwithstanding this assessment, Police Credit Union is actively engaged in conducting a detailed assessment as to the implications of climate risk as it relates to physical, transition and liability risks which may impact the business in the future.

To assist in discharging these responsibilities, the Board has instigated a control framework through the formation of risk management committees, each chaired by an Executive Manager with this responsibility included in their accountability obligations.

Asset and Liability Committee

This Management Committee reports to the Board Risk Committee, and monitors and manages the balance sheet, liquidity, interest rate, market and capital adequacy risks, controls, policies, frameworks, procedures and limits as set by the Board and in accordance with regulatory requirements.

The Committee is responsible for the monitoring and management of the liquidity portfolio, treasury management and capital adequacy requirements of the Credit Union and ensures that strategies undertaken are consistent with the strategic direction set by the Board.

Credit Risk Committee

This Management Committee reports to the Board Risk Committee, and monitors and manages the credit risk controls, policies, frameworks, procedures and limits as set by the Board and in accordance with regulatory requirements.

The Committee is responsible for undertaking ongoing reviews of the risk management systems and controls that deal with the adequacy and effectiveness of credit risk management and internal control practices. It ensures that the reporting of credit risk and lending performance is accurate, and maintains a prompt, independent lending review and reporting process.

Compliance and Operational Risk Committee

This Management Committee reports to the Board Risk Committee and monitors and manages the compliance and operational risk controls, policies, frameworks, procedures and limits as set by the Board and in accordance with regulatory requirements.

The Committee is responsible for incorporating changes into the Police Credit Union Group's compliance culture and ensures that staff are skilled to the appropriate level of compliance and monitors systems and policies that deal with the adequacy and effectiveness of the compliance system.

The Committee is also responsible for the ongoing identification, management and monitoring of operational risks, including regulation and compliance, culture and conduct, information security, corporate insurance, occupational health and safety, fraud management, and the implementation of an effective Business Continuity Plan.

Innovation Committee

The Innovation Committee reports to the Board Risk Committee and is responsible for the monitoring, identification, analysis and implementation of innovation-driven ideas or concepts, and efficiency improvements that support the strategic direction of the Credit Union.

Without limiting its scope, the Committee is mandated to embrace disciplined and agile structure to enable it to engage throughout the business and externally in staying abreast of industry and technology trends and ensuring that the Credit Union adopts emerging ideas and concepts to remain relevant.

The Committee ensures that initiatives undertaken are consistent with Police Credit Union's strategic direction and risk appetite.

Product and Pricing Committee

The Product and Pricing Committee reports to the Executive Management Committee and Board and is responsible for the effective and strategic management of products including the monitoring and setting of interest rates and fees and charges, enhancement of products and services,

and the management of transactional risk controls. The Committee actively considers the impact of its decisions across access channels, ensuring that product and marketing strategies are aligned with the customer experience, strategic and asset and liability risk, and sales, distribution and lending strategies.

Community, Environment and Employee Engagement and Diversity (CEEED) Committee

The CEEED Committee reports to the Board Remuneration and Governance Advisory Committee and is responsible for overseeing the implementation of ongoing initiatives which reflect Police Credit Union's commitment to community, social responsibility and the environment.

Notwithstanding Police Credit Union's long-standing commitment to Community and Environment, having implemented strategic level metrics since 2006 to transparently monitor and measure progress around sustainability, it has further enhanced this position through the development of a Board-level Environmental and Social Sustainability Policy.

The policy framework further formalises Police Credit Union's commitment to expanding the scope of its environmental impact initiatives, including enhancements centred around greenhouse gas emissions, waste, and pollution.

In addition, this policy commitment provides guidance in the implementation of social sustainability initiatives incorporating relevant key entity factors including workforce and diversity, safety management, and community involvement, both of which strengthen Police Credit Union's strategic effectiveness in achieving positive environmental and corporate social responsibility outcomes.

The CEEED Committee is also mandated to develop and implement initiatives to enhance employee engagement and diversity, specifically to attract and retain talent, drive high performance team outcomes and engage a proactive culture in the achievement of sustainable and superior customer experience outcomes.

Each Committee undertakes an annual self-evaluation of the Committee's performance against its agreed objectives and mandate, as set out in the relevant Committee Charter.

Three Lines of Defence

The Board employs the Three Lines of Defence risk management and assurance model to facilitate effective risk governance. The Three Lines of Defence model reflects the Board's position that risk is everyone's responsibility, and all employees are responsible for identifying and managing risk

and operating within the Credit Union's appetite for risk. This approach requires each business line and business unit to manage the outcome of its risk-taking activities and allows it to benefit from the resulting risk adjusted returns.

Internal Audit

Internal Audit is an independent and objective review function with the responsibility of evaluating, testing and reporting on the adequacy and effectiveness of Management's control of operational risk and compliance with regulatory and legislative requirements. Internal Audit reports directly to the Board Audit Committee and has access to all areas within Police Credit Union. Audits are planned and conducted following a risk-based approach with reports provided to the Board Audit Committee and Management.

During the period to 30 June 2023, the Board Audit Committee commissioned and completed a comprehensive review of its internal audit program to ensure that assurance practices retained an abundance of currency.

This review resulted in various enhancements to its assurance program including the implementation of enhanced approaches as it related to its Charter, Internal Audit Strategy, Internal Audit Annual Plan, Internal Audit Approach, Assurance Map, Internal Audit Manual, and Internal Audit Annual Report.

Strategic Planning and Development

The Board and Executive Management Team undertake a comprehensive review of the Credit Union's strategic direction on an annual basis, including the development of a Balanced Scorecard and key performance indicators and ensure that the Credit Union's strategic direction is in accordance with the Board's risk appetite.

The Board receives regular updates from the Chief Executive Officer on strategic planning progress, emerging issues and other strategic matters at monthly Board Meetings.

Ethical Standards

The Directors acknowledge the need for, and continued maintenance of, the highest standards of ethical conduct by all Directors and employees of the Police Credit Union Group.

A Code of Ethics handbook, which is part of Board policy, contains a comprehensive overview of expected values, behaviours and conduct, and is issued to all staff as part of induction and as part of the annual ongoing training calendar.

The Code of Ethics policy statement provides a framework to guide interactions within the Group, with Members, suppliers, stakeholders, and the community.

Our commitment to maintaining a positive and ethical culture is directly aligned with our core values of superior service, honesty, integrity, and financial prudence.

These core values, as well as our strategic direction, have been incorporated into the Code of Ethics that has been endorsed by the Executive Management Committee and adopted by the Board.

The Code of Ethics is a policy statement of the Group's corporate values and philosophy and underpins business decisions, actions, conduct and behaviour. It aims to make sure that the high standards of corporate and individual behaviour are observed in conducting the business and provides support for those behaviours.

The Code of Ethics policy statement provides guidelines for Directors, Senior Management and Employees, so that there is a common understanding of the values and expected standards of behaviour, including the following:

- At all times act with honesty, integrity and impartiality and do not knowingly mislead anyone, including Colleagues, Clients, Members and Regulators
- Comply with the letter and spirit of all Commonwealth, State and Territory laws, and relevant industry Codes
- Report all corrupt, illegal and unethical conduct to an Executive Manager, CEO or, where necessary to the Protected Disclosure Officer in accordance with POL 3005.16 Whistleblower Policy
- Protect the confidentiality of information made available to you, subject to any legal obligations such as disclosure
- Be alert to conflicts of interest and take appropriate steps to declare and deal with them
- Provide a high standard of service to all you deal with in performing your duties and obligations
- Maintain a level of fitness and propriety and develop the necessary level of professional skills and current knowledge to excel in your duties
- Do not harass or abuse a member of the public or employees either inside or outside of the workplace
- Do not take, or seek to take, improper advantage of your position in order to obtain a benefit for yourself or another person
- Seek innovative solutions to problems or challenges and work to achieve continuous improvement to help Police Credit Union meet or exceed all relevant legal, industry, safety, environment and other community expectations.

Conflict of Interest

In accordance with APRA Prudential Standards, ASIC licensee requirements, the Corporations Act 2001 and the Credit Union's Constitution, Directors and Senior Management keep the Board advised of any interest that could potentially conflict with those of the company.

Directors do not vote on any issue where a conflict of interest may arise, and can seek external professional advice, at the Group's expense, with the approval of the Board.

Prior to the commencement of each Board meeting, Directors are asked to consider an independence declaration, attesting that they are free from any conflict of interest.

Directors and Management are required to provide written disclosure of actual or potential conflicts of interest on appointment and to update the disclosures annually. In addition, all Directors, Managers and staff are required to disclose any actual or potential conflicts of interest as soon as they become aware of such a conflict.

Whistleblowing

As part of its commitment to a high standard of integrity, ethical conduct and transparency in all of its activities and interactions, Police Credit Union has implemented an effective Whistleblowing Policy that supports these principles, whilst adhering to its obligations as a regulated entity under the Corporations Act 2001 and the whistleblower provisions thereunder.

This policy establishes a mechanism whereby Police Credit Union's officers and employees, suppliers, associates, and relatives or dependents of these individuals can safely raise concerns and challenge any misconduct and improper practices, including the ability to do so anonymously.

To ensure the integrity and anonymity of the raising of any concerns, the Credit Union has appointed independent, and suitably qualified individuals as Whistleblower Protection Officers.

All employees are trained in Police Credit Union's Whistleblowing Policy, which can be found on our website.

Communications to Shareholders (Members)

The Board aims to ensure that the shareholders (Members) are informed of all major developments arising out of the business of the Police Credit Union Group. Information is communicated to shareholders (Members) in the following manner:

- An Annual Report is sent to all recipient registered shareholders (Members) which includes relevant information about the operations of the Police Credit Union Group during the year; changes in the state of affairs of the Group and other disclosures required by the Corporations Act 2001
- The Chairman's and CEO's address to the Annual General Meeting and a review of trading results for the 12 months to 30 June
- Notices of all meetings of shareholders
- A newsletter is made available to all shareholders on an annual basis
- Regular updates in the 'News & Media' section of the Police Credit Union website
- Communication and interaction via Police Credit Union's social media channels

A copy of the current Annual Report and Constitution and information on the Credit Union's products and services are made available on the Police Credit Union Group's website at www.policecu.com.au.

Financial Statements

for the financial year ended 30 June 2023

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Statement of Comprehensive Income

for the financial year ended 30 June 2023

	Note	Consolidated		Credit Union	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Interest income	5	49,709	31,793	58,585	34,036
Interest expense	5	(19,601)	(4,298)	(31,678)	(11,610)
Net interest income	5	30,108	27,495	26,907	22,426
Fee and commission income	6	4,245	4,331	4,489	4,576
Other operating income	7	561	792	3,285	5,432
Impairment losses on loans and advances	15	498	1,034	498	1,034
Operating expenses	8	(26,198)	(24,926)	(25,965)	(24,742)
Profit before tax		9,214	8,726	9,214	8,726
Income tax expense	10(a)	(2,344)	(2,152)	(2,344)	(2,152)
Profit for the year from continuing operations		6,870	6,574	6,870	6,574
Other comprehensive income, net of income tax					
<i>Item that will not be reclassified subsequently to profit and loss:</i>					
Gain on valuation of freehold land and buildings	20	-	1,577	-	1,577
(Loss)/gain from change in fair value of equity investments	20	(299)	518	(299)	518
Cuscal Ltd share buyback	20	-	102	-	102
Effect of change in corporate tax rate	20	(344)	23	(344)	23
<i>Item that may be reclassified subsequently to profit and loss:</i>					
Effective portion of change in fair value of cash flow hedges	20	(105)	1,394	(105)	1,394
Total Comprehensive Income for the Year		6,122	10,188	6,122	10,188

Statement of Financial Position

for the financial year ended 30 June 2023

	Note	Consolidated		Credit Union	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Assets					
Cash and bank balances	11	47,191	48,555	20,724	26,937
Receivables other	12	3,239	1,519	3,239	1,519
Investment instruments	13	167,570	151,726	167,570	151,726
Loans and advances	14	1,056,014	968,757	1,056,014	968,757
Investment securities	22(g)	2,378	2,805	261,505	261,371
Property, plant and equipment	16	14,097	13,192	14,097	13,192
Intangible assets		831	846	831	846
Derivative assets	22(d)	1,881	1,832	1,881	1,832
Current tax assets	10(b)	1,770	665	1,770	665
Deferred tax assets	10(c)	267	273	267	273
Total Assets		1,295,238	1,190,170	1,527,898	1,427,118
Liabilities					
Deposits	17	1,152,837	1,026,133	1,152,837	1,026,133
Payables due to other financial institutions	18	19,029	48,000	19,029	48,000
Borrowings	14	-	-	232,660	236,948
Payables other	19	7,296	6,136	7,296	6,136
Provisions	19	4,088	4,035	4,088	4,035
Total Liabilities		1,183,250	1,084,304	1,415,910	1,321,252
Net Assets		111,988	105,866	111,988	105,866
Equity					
Reserves	20	21,888	22,506	21,888	22,506
Retained earnings		90,100	83,360	90,100	83,360
Total Equity		111,988	105,866	111,988	105,866

Statement of Changes in Equity

for the financial year ended 30 June 2023

	Reserves	Retained Earnings	Total
Consolidated	\$'000	\$'000	\$'000
Balance at 30 June 2021	18,575	77,103	95,678
Profit for the year	-	6,574	6,574
Other comprehensive income for the year	3,614	-	3,614
Total comprehensive income for the year	3,614	6,574	10,188
Transfers to/(from) retained earnings	317	(317)	-
Balance at 30 June 2022	22,506	83,360	105,866
Profit for the year	-	6,870	6,870
Other comprehensive (loss)/income for the year	(748)	-	(748)
Total comprehensive (loss)/income for the year	(748)	6,870	6,122
Transfers to/(from) retained earnings	130	(130)	-
Balance at 30 June 2023	21,888	90,100	111,988

	Reserves	Retained Earnings	Total
Credit Union	\$'000	\$'000	\$'000
Balance at 30 June 2021	18,575	77,103	95,678
Profit for the year	-	6,574	6,574
Other comprehensive income for the year	3,614	-	3,614
Total comprehensive income for the year	3,614	6,574	10,188
Transfers to/(from) retained earnings	317	(317)	-
Balance at 30 June 2022	22,506	83,360	105,866
Profit for the year	-	6,870	6,870
Other comprehensive (loss)/income for the year	(748)	-	(748)
Total comprehensive (loss)/income for the year	(748)	6,870	6,122
Transfers to/(from) retained earnings	130	(130)	-
Balance at 30 June 2023	21,888	90,100	111,988

Statement of Cash Flows

for the financial year ended 30 June 2023

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Profit before tax	9,214	8,726	9,214	8,726
Adjustment for non-cash items:				
Allowance for credit impairment	(516)	(1,112)	(516)	(1,112)
Depreciation and amortisation charges	1,571	1,793	1,571	1,793
Gain on sale of plant and equipment	120	93	120	93
Interest on lease liabilities	22	50	22	50
Amortisation of loan fee income	(142)	(45)	(142)	(45)
Changes in operating assets and liabilities:				
Loans and advances	(86,599)	(14,414)	(86,599)	(14,414)
Investment instruments with maturity greater than three months	(24,665)	(19,973)	(24,665)	(19,973)
Deposits	126,704	(25,249)	126,704	(25,249)
Payables and other liabilities	1,807	(2,153)	1,807	(2,153)
Provisions	53	306	53	306
Receivables and other assets	(1,918)	(609)	(1,918)	(609)
Income tax paid	(3,615)	(2,456)	(3,615)	(2,456)
Net cash from/(used in) operating activities	22,036	(55,043)	22,036	(55,043)
Purchase of property, plant and equipment and intangibles	(2,600)	(1,274)	(2,600)	(1,274)
Proceeds from sale of property, plant and equipment	19	38	19	38
Proceeds from sale of Cuscal Ltd share	-	221	-	221
Net cash used in investing activities	(2,581)	(1,015)	(2,581)	(1,015)
Payables due to other financial institutions	(28,971)	91	(28,971)	91
Borrowings	-	-	(4,849)	4,741
Lease liability payments	(668)	(676)	(668)	(676)
Net cash used in financing activities	(29,639)	(585)	(34,488)	4,156
Net decrease in cash held	(10,184)	(56,643)	(15,033)	(51,902)
Cash at the beginning of the financial year	57,375	114,018	35,757	87,659
Cash and cash equivalents at the end of the year	47,191	57,375	20,724	35,757
Cash and cash equivalents comprise:				
Cash and balances with banks	47,191	48,555	20,724	26,937
Investment instruments	167,570	151,726	167,570	151,726
Less: amounts with maturity greater than three months	(167,570)	(142,906)	(167,570)	(142,906)
	47,191	57,375	20,724	35,757

Notes to the Financial Statements

for the financial year ended 30 June 2023

1. General information

Police Credit Union Limited (the "Credit Union" or the "Company") is a public company, incorporated and operating in Australia. Its registered office and its principal place of business is as follows:

17 – 23 Carrington Street
Adelaide SA 5000
Tel: 1300 131 844

2. Summary of accounting policies

Statement of compliance

These financial statements are general purpose financial statements and have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements include the separate financial statements of the Company and the consolidated financial statements of the Credit Union and its subsidiaries ("the Group"). For the purpose of preparing the consolidated financial statements, the Credit Union is a profit entity.

Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (IFRS). The related changes to significant accounting policies are described below.

The financial statements were authorised for issue by the Directors on 28 September 2023.

Basis of preparation

The financial statements have been prepared based on historical cost, except for Freehold Land & Buildings, investment in equity instruments and derivatives which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars representing the Group's functional currency, unless otherwise noted.

ASIC Corporations (Parent Entity Financial Statements) Instrument 2021/195 commencing 11 May 2021 has been adopted allowing the financial statements of Police Credit Union Limited (PCU) to be included in these financial statements in full under Chapter 2M of the Corporations Act rather than only presenting summary parent entity information otherwise required by regulation.

The Company is of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 commencing 1 April 2016, and in accordance with that Corporations Instrument, amounts in the Directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) relevant to its operations and effective for the current annual reporting period.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 4 for a discussion of critical judgements in applying the Group's accounting policies, and key sources of estimation uncertainty.

3. Significant accounting policies

The following significant accounting policies and those presented in the subsequent notes have been adopted in the preparation and presentation of the financial statements and are consistent with the prior year:

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and entities controlled by the Credit Union (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved when the Company, has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Group operates a securitisation vehicle under its self-securitisation program. The Group has concluded that it controls the securitisation vehicle.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. 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.

Notes to the Financial Statements

for the financial year ended 30 June 2023

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

b) Financial assets

The Group initially recognises loans and advances and deposits, on the date on which they are originated. All other financial instruments are recognised on a trade date, which is the date on which the Group becomes a party to the contractual provisions of the instruments. A financial asset is measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A financial asset is classified into one of the three specified categories: "measured at amortised cost", "fair value through other comprehensive income (FVOCI)", and "fair value through profit and loss (FVTPL)".

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is to hold asset to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI)

The Group's loans and advances to other ADIs, loans and advances to members, receivables other and the Credit Union's investment in notes issued by the self-securitisation trust are classified as financial assets at amortised cost. Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Financial assets measured at FVOCI

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- The 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 are SPPI.

Gains or losses arising from changes in the fair value of financial instruments measured at fair value through other comprehensive income are recognised in a separate component of equity.

The Group's investment in an equity instrument, Cuscal Ltd is designated to be measured at FVOCI. The FVOCI designation was made because the investment is expected to be held for the long-term strategic purposes, rather than for trading. The investment is measured at fair value. Fair value is determined in the manner described in Note 22(g). All fair value changes are recognised in the investment revaluation reserve and are never reclassified to profit or loss, even on disposal. Dividends on the investment are recognised in profit or loss. The investment in Cuscal Ltd is not quoted on an active market, but there is a market in the shares and prices on trades are disclosed to the Members of Cuscal Ltd.

All other financial assets that do not fall in the above categories are classified as measured at FVTPL.

Investments in subsidiaries

Investments in subsidiaries continue to be measured at cost after initial recognition by the Company.

c) Financial liabilities

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

Member shares

Each member holds one redeemable preference share that entitles the member to vote at meetings of members, no dividends are payable in respect of any member share. On a winding-up of the Credit Union each member is entitled to participate in any surplus equally and without regard to the number of member shares held by each member. When a person ceases to be a member, the share is repurchased by the Credit Union by a charge to the Capital Redemption Reserve.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the classification of the related debt or equity instruments or component parts of compound instruments in the Statement of Financial Position.

Notes to the Financial Statements

for the financial year ended 30 June 2023

d) Leases

As a lessee, the Group leases branch premises. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for leases of branches on-balance sheet.

The Group has not entered into any new leases during the year ended 30 June 2023.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payment discounted at the Group's incremental borrowing rate as at 1 July 2019 (date of initial application).

Right-of-use assets are measured at an amount equal to the lease liability (adjusted for the prepaid or accrued lease payments).

As a lessee, at inception of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. The Group recognises a right-of-use asset initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis.

f) Securitisation

The Credit Union has established a securitisation trust for the purpose of issuing notes that are eligible for borrowing funds via Repurchase Agreements with the Reserve Bank of Australia for emergency liquidity. The MTG PCU Trust Repo Series No. 1 ("MTG PCU Trust" or "Trust") was established on 3 September 2018. The Credit Union has transferred an equitable interest in mortgages to the MTG PCU Trust and holds all notes issued by the MTG PCU Trust, manages the loans, and retains all residual benefits and costs of the loan portfolio.

The residual benefits and costs on this loan portfolio are retained by the Credit Union. As there has not been a transfer of all risks and rewards of these loans to the MTG PCU Trust, such loans are not derecognised in the Credit Union's financial statements and the MTG PCU Trust meets the definition of the controlled entity. The Group presents a set of financial statements representing the financial performance and financial position of the parent and the securitisation trust. Details of the balances of the securitisation trust are disclosed in Notes 14 and 22(g).

g) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

4. Critical accounting judgements and key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation processes

Investment Securities and Freehold Land and Buildings are measured at fair value for financial reporting purposes. The Board of Directors considers the impact of market movements on the carrying amount of these assets and where a material difference is likely a formal valuation is undertaken. The Board of Directors either uses market observable data, to the extent it is available, or engages independent valuers who use appropriate valuation techniques and unobservable inputs to arrive at fair value.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed in Notes 16 and 22 (g).

Useful lives of property, plant and equipment and intangible assets

The Group reviews the estimated useful lives of property, plant, equipment and intangible assets at the end of each annual reporting period. During the financial year, there was no significant change in the useful lives compared to the prior years.

Credit impairment losses on loans and advances

Non-performing loans

Estimates of Loss given default are determined based on the Group's actual losses or industry loss experience. For loans that have experienced a significant increase in credit risk, management makes a specific estimate of the cash flows from the future recovery of the collateral and the timing thereof. These estimates are based on historical loss experience and judgement relating to the specific circumstances and current conditions.

Management have also considered the impact of future economic conditions by applying a range of possible outcomes that could impact on the recovery rates on collateral in downturn or upturn conditions.

Notes to the Financial Statements

for the financial year ended 30 June 2023

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
5. Net interest income				
Interest income				
Investment instruments	6,706	1,141	6,201	1,118
Loans and advances	43,003	30,652	43,003	30,652
Notes receivable – MTG PCU Trust	-	-	9,381	2,266
	49,709	31,793	58,585	34,036
Interest expense				
Deposits	19,496	4,169	19,496	4,169
Payables due to other financial institutions	105	129	105	129
Payable to MTG PCU Trust	-	-	12,077	7,312
	19,601	4,298	31,678	11,610
Net interest income	30,108	27,495	26,907	22,426

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Material fees received on origination of loans are treated as interest income using a method that approximates the effective interest method based on the life of the loan portfolio. The life of the loan portfolio is determined based on the immediate past experience within the portfolio. Other transaction related fees are recognised at the point of rendering the service and included in commission and fee income.

6. Fee and commission income

Fee income	1,802	1,851	2,046	2,096
Insurance commissions	1,815	1,770	1,815	1,770
Other commissions	628	710	628	710
	4,245	4,331	4,489	4,576

Fee and commission income are measured based on the consideration specified in contracts with members and customers, net of applicable GST. Revenue is recognised when control over a service is transferred to a customer. The Group has used a combination of new business volumes and references to differential commissions to determine the portion of commission that relate to new and renewing business.

The nature and timing of satisfaction of performance obligations including significant payment terms and revenue recognition policies are provided in the table below.

Service	Nature and timing of satisfaction of performance obligations including significant payment terms	Revenue Recognition under AASB15
Transactional Banking Fees	Fee income comprises fixed transaction-based fees that are specified based on the nature and cost of the transaction. The obligation to pay the fee arises at the time of the service, when the transaction takes place, and these are billed to members' accounts monthly.	Revenue relating to transaction fees is recognised at a point in time when the transaction takes place.
Insurance Commissions	Commission is earned as a percentage of premiums for motor and household insurance policies arranged by the Group. The service obligations encompass all administration from inception, for the term of the policy, including renewal. The commissions are paid monthly provided the premiums have been received by the insurer.	An apportionment of commission is made to recognise that applying to the administration related component over time. The remaining component of commission, that relates to the underwriting of the policy at inception is recognised for a period of up to three years for which the Group is expected to receive commission.
Other Commissions	Commission is earned on transactions on Visa Cards issued by the Group to its members.	Revenue relating to other commission is recognised at a point in time when the transaction takes place.

Notes to the Financial Statements

for the financial year ended 30 June 2023

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
7. Other operating income				
Dividend income	116	347	116	347
Property rental income	41	40	41	40
Cost recoveries, contributions and loan/guarantee fees	404	405	404	405
Distribution from MTG PCU Trust	-	-	2,724	4,640
	561	792	3,285	5,432

Dividend income is recognised on the date of entitlement to the dividend. Rental income is recognised on a straight-line basis over the lease period.

8. Operating expenses

Affiliation fees	209	216	209	216
Board committee and meetings	698	780	698	780
Commissions paid	373	359	373	359
Data processing & telecommunications	1,712	1,611	1,712	1,611
Debt collection costs	42	84	42	84
Depreciation & amortisation	1,571	1,763	1,571	1,763
Insurance	390	348	390	348
Legal and professional fees	1,075	1,085	842	901
(Gain)/loss on disposal of property, plant and equipment	145	(17)	145	(17)
Marketing, advertising and printing	2,377	2,117	2,377	2,117
Office administration	471	414	471	414
Office occupancy	710	546	710	546
Salaries and on-costs	13,564	12,738	13,564	12,738
Training, travel and accommodation	634	553	634	553
Transaction costs	2,227	2,329	2,227	2,329
	26,198	24,926	25,965	24,742

The amount recognised as an expense for defined contribution plans is \$1,457 thousand (2022: \$1,373 thousand). The expense item is included within salaries, on-costs and Board committee and meetings.

9. Remuneration of auditors

	\$	\$	\$	\$
Audit financial statements - Group	125,908	114,791	125,908	114,791
Other Regulatory audit services - Group	41,552	38,719	41,552	38,719
Other non-audit services - Group	41,800	100,252	41,800	100,252
Audit financial statements - MTG PCU Trust	9,523	9,000	-	-
	218,783	262,762	209,260	253,762

The auditor of the Group is KPMG. The auditor of the MTG PCU Trust is Moore Australia.

Notes to the Financial Statements

for the financial year ended 30 June 2023

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
10. Income tax				
(a) Income tax recognised in profit				
Current tax expense				
- in respect of the current year	2,500	1,874	2,500	1,874
- in relation to the current tax of prior year	10	2	10	2
Deferred tax expense				
- in respect of the current year	234	201	234	201
- in relation to the deferred tax of prior year	-	(13)	-	(13)
- change in tax rates	(400)	88	(400)	88
Total income tax expense	2,344	2,152	2,344	2,152
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
Profit before tax	9,214	8,726	9,214	8,726
Income tax expense calculated at 30% (2022: 25%)	2,764	2,182	2,764	2,182
Permanent differences:				
Non-deductible expenses	5	5	5	5
Franked dividend received	(35)	(111)	(35)	(111)
	2,734	2,076	2,734	2,076
Change in tax rate	(400)	88	(400)	88
Under/(over) provision of tax in previous years	10	(12)	10	(12)
	2,344	2,152	2,344	2,152
(b) Current tax assets/(liabilities)				
Income tax refundable/(payable)	1,770	665	1,770	665
(c) Deferred tax assets				
Taxable and deductible temporary differences arise from the following:				
Depreciation on property, plant and equipment	293	240	293	240
Derivative assets	(512)	(465)	(512)	(465)
Employee entitlements	970	746	970	746
Gains on investments in equity instrument	(392)	(434)	(392)	(434)
Impairment allowances on loans	388	453	388	453
Land and buildings	(1,127)	(849)	(1,127)	(849)
Other deferred deductibles	(139)	(96)	(139)	(96)
Payables	609	504	609	504
Provisions for decommissioning	96	71	96	71
Unearned fees	81	103	81	103
	267	273	267	273
(d) Movement in deferred tax asset				
Deferred tax (charged)/credited to profit or loss	(234)	(188)	(234)	(188)
Change in tax rate	400	(65)	400	(65)
Deferred tax recognised in other comprehensive income	(172)	(1,159)	(172)	(1,159)
(Decrease)/Increase in deferred tax asset	(6)	(1,412)	(6)	(1,412)
(e) Franking account				
Adjusted Franking account balance as at the end of financial year	39,016	37,464	39,016	37,464

Notes to the Financial Statements

for the financial year ended 30 June 2023

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax is recognised as an expense or income in the profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

The Credit Union and all its wholly-owned entities are part of a tax-consolidated group under Australian Taxation Law. The Credit Union Limited is the head entity in the tax-consolidated group. The tax expense or income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Credit Union (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Credit Union and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

	Consolidated		Credit Union	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000

11. Cash and bank balances

Held at amortised cost:

Notes and coins	860	886	860	886
Bank balances	4,615	16,961	4,615	16,961
Bank balances – at call	41,716	30,708	15,249	9,090
	47,191	48,555	20,724	26,937

For the purposes of the Statement of Financial Position, cash and cash equivalents comprise cash on hand and cash in banks exclusive of bank overdrafts which are shown within borrowings under liabilities. For the purposes of the Statement of Cash Flows, Cash and Cash Equivalents also includes investments in money market instruments with a maturity date within 90 days from the end of the financial year and is net of bank overdrafts.

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- Member deposits and withdrawals from savings and investment accounts;
- Loan advances and repayments to members and to other ADIs;
- Borrowings; and
- Payables due to other financial institutions.

12. Receivables other

Accrued income	231	55	231	55
Contract receivable	537	521	537	521
Prepayments	379	117	379	117
Settlement and clearing accounts	2,088	826	2,088	826
Trade receivables	4	-	4	-
	3,239	1,519	3,239	1,519

The contract receivables relate to the acquisition component of insurance commission that is expected to be receivable over more than one financial year. The insurance contracts are for one year but may be cancelled at any time at the discretion of the policyholder or through non-payment, the expectation being that these will be renewed for up to three years.

Notes to the Financial Statements

for the financial year ended 30 June 2023

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Held at amortised cost:				
Other ADIs	167,570	151,726	167,570	151,726
	167,570	151,726	167,570	151,726

Investment instruments with other ADIs are fixed rate notes held with other Australian Prudential Regulatory Authority (APRA) regulated Authorised Deposit Taking Institutions.

Analysis by maturity:

0–1 month	-	-	-	-
1–3 months	-	8,820	-	8,820
3–12 months	54,956	32,738	54,956	32,738
1–5 years	112,614	110,168	112,614	110,168
	167,570	151,726	167,570	151,726

14. Loans and advances

Held at amortised cost:

Loans outstanding	1,057,581	970,982	1,057,581	970,982
Unearned fee income	(272)	(414)	(272)	(414)
Allowance for impairment (Note 15)	(1,295)	(1,811)	(1,295)	(1,811)
	1,056,014	968,757	1,056,014	968,757

Analysis of loans and advances (gross)

By purpose:

Residential loans	844,357	784,459	844,357	784,459
Personal loans	89,219	80,860	89,219	80,860
Credit card advances	4,193	4,114	4,193	4,114
Commercial loans	119,812	101,549	119,812	101,549
	1,057,581	970,982	1,057,581	970,982

By security:

Secured by mortgage	960,193	881,672	960,193	881,672
Secured other	91,428	83,746	91,428	83,746
Unsecured	5,960	5,564	5,960	5,564
	1,057,581	970,982	1,057,581	970,982

By maturity:

Overdraft	12,448	12,076	12,448	12,076
0–3 months	31,267	20,675	31,267	20,675
3–12 months	63,522	57,768	63,522	57,768
1–5 years	159,212	157,582	159,212	157,582
Over 5 years	791,132	722,881	791,132	722,881
	1,057,581	970,982	1,057,581	970,982

Notes to the Financial Statements

for the financial year ended 30 June 2023

Credit risk exposure and concentration of risk

The exposure to credit risk in relation to each class of recognised financial asset, without having regard to the fair value of any collateral, is the carrying amount of the loan or advance. Within the portfolio, loans and advances totalling \$136.3 million (2022: \$160.8 million) are covered by Lender Mortgage Insurance (LMI) that reduces the Group's exposure to credit risk. Loans secured by mortgages within South Australia comprise 84.6% (2022: 85.9%) of outstanding balances.

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Concentration of loans and advances to groups of Members having similar characteristics are:				
Police	308,463	304,332	308,463	304,332
Nurses	123,724	104,823	123,724	104,823
Others	625,394	561,827	625,394	561,827
	1,057,581	970,982	1,057,581	970,982

In addition to the on-balance sheet credit exposure above there are approved but undrawn loans and credit limits. These comprise mortgage re-draws and credit lines, credit card and overdraft facilities.

Loans approved not yet advanced	37,413	39,117	37,413	39,117
Undrawn credit limits and re-draw	105,302	97,877	105,302	97,877
	142,715	136,994	142,715	136,994

Financial Guarantees have been issued on behalf of members totalling \$516 thousand (2022: \$548 thousand). These guarantees require the Credit Union to make payment to the holder thereof, should the member fail to make payment to the holder.

Securitised Loans

The MTG PCU Trust has been established by the Credit Union as a mechanism to quickly obtain funds from Reserve Bank of Australia in order to support the liquidity. All loans are variable interest rate mortgages with the term of up to 40 years.

	2023 \$'000	2022 \$'000
Securitised loans	232,165	231,872
Unremitted collections and other receivables at the end of the year	495	5,076
Borrowings	232,660	236,948

15. Allowance for impairment

Impairment losses on loans and advances

The expenses incurred in the Statement of Comprehensive Income relating to impairment losses on loans and advances is presented in the table below.

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Impairment loss recognised in the profit or loss:				
Recoveries on loans previously written off	37	34	37	34
Allowances for loan impairment - net movement	516	1,111	516	1,111
Loans written off during the year as uncollectible	(55)	(111)	(55)	(111)
Total impairment charge to profit and loss	498	1,034	498	1,034

Notes to the Financial Statements

for the financial year ended 30 June 2023

The Group will write-off loans in full when there is no reasonable expectation of recovering the loan. This is generally the case where the collateral, if any, is considered worthless and the borrower does not have assets or sources income that could generate cash flows to repay the amounts due.

The movement on allowances for loan impairment are derived from the application of an Expected Credit Loss (ECL) model that is applied under Australian Accounting Standard, AASB 9 Financial Instruments, described below.

Allowance for impairment on loans and advances

Outstanding and possible future credit exposures at year-end are summarised in the following table together with the relevant ECL allowances.

Overdue status of loans and advances at 30 June 2022	Stage 1	Stage 2	Stage 3	Economic Overlay	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Current	966,350	-	-	-	966,350
Overdue 0–30 days	3,052	-	-	-	3,052
Overdue 31–59 days	-	-	-	-	-
Overdue 60–89 days	-	-	-	-	-
Overdue more than 90 days, defaulted	-	-	1,580	-	1,580
Loans and advances outstanding	969,402	-	1,580	-	970,982
Undrawn facilities	52,553	-	-	-	52,553
Allowance for impairment	(626)	-	(310)	-	(936)
Economic overlay	-	-	-	(875)	(875)
Total allowance for impairment	(626)	-	(310)	(875)	(1,811)

Overdue status of loans and advances at 30 June 2023	Stage 1	Stage 2	Stage 3	Economic Overlay	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Current	1,050,267	-	-	-	1,050,267
Overdue 0–30 days	1,611	768	663	-	3,042
Overdue 31–59 days	645	425	56	-	1,126
Overdue 60–89 days	1,214	312	-	-	1,526
Overdue more than 90 days, defaulted	-	-	1,620	-	1,620
Loans and advances outstanding	1,053,737	1,505	2,339	-	1,057,581
Undrawn facilities	46,918	-	-	-	46,918
Allowance for impairment	(623)	(2)	(393)	-	(1,018)
Economic overlay	-	-	-	(277)	(277)
Total allowance for impairment	(623)	(2)	(393)	(277)	(1,295)

Impact of movements in gross carrying amount on allowance for expected credit losses

The following explains how changes in the gross carrying amounts of financial assets during the year have contributed to the changes in the allowance for credit losses for the Group under ECL. Movement on loan balances that have experienced a Significant Increase in Credit Risk (SICR) (Stage 2 and credit impaired Stage 3) is presented in the table below:

	2023 Loan Balances \$'000	2022 Loan Balances \$'000
Balances at 1 July	1,580	7,006
Increase in credit risk and/or credit impaired	2,466	582
Repaid in full	(84)	(3,135)
Transferred to performing (Stage 1)	(107)	(2,837)
Decrease in balances	(11)	(36)
Loan and advances in Stage 2 and 3 at 30 June	3,844	1,580

Loans in Stage 2 and 3 above are highly collateralised by mortgages and Lenders Mortgage Insurance.

Notes to the Financial Statements

for the financial year ended 30 June 2023

	2023	2022
	Loan Balances	Loan Balances
	\$'000	\$'000
Mortgage secured	3,313	1,160
Mortgage secured with LMI	531	420
	3,844	1,580

During 2023 no properties were taken in possession, no properties were in procession, and none were sold. In 2022 there were two properties taken for the total amount of \$551k and both sold.

The contractual amount outstanding on financial assets that were written off during the year and that are still subject to enforcement activity \$47k (2022: nil).

Expected Credit Loss Model

The ECL model applies to all financial assets measured at amortised cost, loan commitments and financial guarantees contracts not measured at FVTPL.

The Group's Credit Management Practices identify members who are experiencing difficulty in meeting their loan repayment commitments at an early stage, either as a result of missed or erratic repayments or as a result of an application for restructuring. On identifying such loans or where such loans become more than 30 days past due these are regarded as having a Significant Increase in Credit Risk. The Group's credit portfolios are of a manageable size that allows for early credit management to be undertaken on an individual basis and therefore where a SICR has occurred the exposures are managed individually. The three-stage methodology is applied using the criteria below.

Stage	Criteria	Determination of allowance
Performing Loans Stage 1 12-month ECL	All balances and expected exposures under 30 days.	On origination of financial assets, a collective allowance for ECL from defaults occurring over the next 12 months is recognised.
Performing Loans Stage 2 Lifetime ECL	Exposures that have experienced a Significant Increase in Credit Risk (SICR) since origination or where loans are more than 30 days past due.	Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer significant, the exposure is reclassified to Stage 1 and the allowance reverts to 12 months ECL.
Non-performing Loans Stage 3 Lifetime ECL	The Group has elected that default will occur on the earlier of when an obligor is made bankrupt, or loan repayments are 90 days past due. This position is taken to ensure consistency for Financial and Regulatory Reporting purposes.	Financial assets in default recognise an allowance equivalent to lifetime ECL. On default an assessment of the collateral in place and the time for realisation thereof is undertaken to assess impairment allowance required if any.

Other receivables which are measured at amortised cost and financial guarantees are considered to have low credit risk and therefore no allowance for impairment has been recognised.

ECL measurement

The ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes considering the time value of money, past events, current and future economic conditions. For each significant portfolio of financial assets ECL is calculated as a product of the following risk factors:

- Probability of default (PD) – the likelihood that a debtor will be unable to pay its obligations in full without having to take actions such as realising on security so that the debtor will become 90 days overdue on obligation or contractual commitment.
- Exposure at default (EAD) – the Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which the EAD calculation also considers the probability of unused limit being drawn down.
- Loss given default (LGD) – the amount that is not expected to be recovered following default.

Credit risk factors of PD and LGD used in ECL calculation are point-in-time estimates based on current conditions and are adjusted to include the impact of multiple probability-weighted future forecast economic scenarios. The impact of future economic conditions is also factored into the recovery from collateral and is based on outcomes from economic upturns or downturns.

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The credit risk factors referred to previously that have been applied are presented below:

	2023	2023	2022	2022
	Probability of Default (PD)	Loss Given Default (LGD)	Probability of Default (PD)	Loss Given Default (LGD)
Bank deposits	0.00%	0%	0.00%	0%
Debt securities	0.05%	45%	0.05%	45%
Residential home loans and undrawn loan commitments	0.39%	4%	0.39%	5%
Personal loans and undrawn loan commitments	0.44%	81%	0.45%	81%
Business banking loans and undrawn loan commitments	1.03%	4%	0.48%	5%

Bank Deposits – there is no recent experience of any bank failure in Australia and thus no probability-based information readily available to the Group for determining its expected credit losses on these categories of financial instruments.

Debt Securities – the Group has adopted a Probability of Default (PD) and the Loss Given Default (LGD) for claims on banks at the minimum prescribed by the Basel Committee for bank exposures being 0.05% and 45%, respectively.

Residential Home Loans – all residential loans are mortgage secured and over 80% loan-to-valuation ratios have Lenders Mortgage Insurance. The absence of statistical relevant loss data on the Group's portfolio makes it difficult to arrive at LGD, therefore, the Group has used data sourced from Major Australian Banks.

Personal Loans – the Group has undertaken extensive review of credit losses incurred over the period from 2008-2022 in order to determine PD and LGD and noted no significant change in losses in the current year especially given the insignificant write-offs.

Business Banking Loans – these loans are predominantly secured against Residential Mortgages with the quality of collateral consistent with that of the Group's Residential Home Loans. More conservative loan-to-valuation ratios are applied to compensate for the prospect of repayment and recovery being dependent primarily on the cash flows generated by the asset, rather than the livelihood and therefore income of borrowers.

The table below represents the movement during the year on ECL.

	Stage 1 Collective Allowance	Stage 2 Collective Allowance	Stage 3 Specific Allowance	Economic Overlay	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
1 July 2021	518	2	494	1,908	2,922
Stage 1 additional allowance	108	-	-	-	108
Stage 2 additional allowance	-	(2)	-	-	(2)
Stage 3 additional allowance	-	-	(184)	-	(184)
Economic overlay	-	-	-	(1,033)	(1,033)
Total charged to income statement	108	(2)	(184)	(1,033)	(1,111)
30 June 2022 (*)	626	-	310	875	1,811
Stage 1 additional allowance	(3)	-	-	-	(3)
Stage 2 additional allowance	-	2	-	-	2
Stage 3 additional allowance	-	-	83	-	83
Economic overlay	-	-	-	(598)	(598)
Total charged to income statement	(3)	2	83	(598)	(516)
30 June 2023 (**)	623	2	393	277	1,295

30 June 2022 (*) comments

Stage 1 – allowance has increased by \$108 thousand for collective allowances in respect of Loans and advances to members due to a slight increase in exposure and a deterioration in general economic outlook. An improvement in economic outlook by a factor of one-eighth will reduce the Stage 1 allowance by \$21 thousand.

Stage 2 – allowance has decreased due to there being no loans in Stage 2.

Stage 3 – allowance has decreased by \$184 thousand due to recoveries on defaulted loans that had been more than adequately provided and a reduction in defaulted balances at year end. The economic overlays have decreased by \$1,033 thousand because of the unwinding of a proportion of the COVID-19 pandemic overlay as discussed below.

Notes to the Financial Statements

for the financial year ended 30 June 2023

30 June 2023 (**) comments

Stage 1 – allowance has decreased by \$3 thousand for collective allowances in respect of Loans and advances to members due to a better economic outlook.

Stage 2 – allowance has increased by \$2 thousand.

Stage 3 – increased by \$83 thousand. The economic overlays have decreased by \$598 thousand as the result of unwinding of a proportion of COVID-19 pandemic overlay as discussed below.

Economic overlay

The impact of the COVID-19 pandemic was initially modelled through an overlay to determine an expectation of credit losses that could possibly arise on directly impacted loans. The ability of such customers to independently meet their repayment commitments, without government support, over the full term of their loans has been confirmed over the past two years. The Credit Union continues to monitor the portfolio of customers who were directly affected by the pandemic and granted payment deferrals, this cohort has reduced balances to \$32.3 million (2022: \$39.9 million) and these loans are performing.

All loans continue to be monitored on a basis other than past due and at year end there are no indicators of any deterioration in borrowers' positions.

A new forward looking Credit Risk overlay has been put in place. This incorporates the impact of interest rates, unemployment and general economic conditions to arrive at an additional allowance for credit losses.

16. Property, plant and equipment

	Freehold land & buildings-fair value	Right of use land & buildings and leasehold improvements- cost	Plant and equipment-cost	Total
	\$'000	\$'000	\$'000	\$'000
Cost/fair value	11,000	4,324	4,359	19,683
Accumulated depreciation	-	(3,180)	(3,311)	(6,491)
Balance at 30 June 2022	11,000	1,144	1,048	13,192
Cost/fair value	10,940	5,949	4,619	21,508
Accumulated depreciation	(194)	(3,786)	(3,431)	(7,411)
Balance at 30 June 2023	10,746	2,163	1,188	14,097

Carrying values. Freehold land and buildings

Freehold land and buildings held for supply of services, and administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of freehold land and buildings is recognised in other comprehensive income and accumulated within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount on the revaluation of freehold land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve

Right-of-use assets

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to leased properties.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

Other plant, equipment and leasehold improvements

Other plant, equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Notes to the Financial Statements

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Valuation of freehold land and buildings

Michael Schwarz, Certified Practising Valuer of M3 Property Strategists performed an independent valuation of the Group's freehold land and buildings on 3 June 2022 to determine its fair value at 30 June 2022 at \$11.0 million. The valuation adopted a capitalisation of net income approach. The carrying value is within Level 2 of the fair value hierarchy in Note 22(f). Had the Group's freehold land and buildings been measured on a historical cost basis, their carrying amount would have been \$3.220 million (2022: \$3.426 million).

Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation on revalued buildings is recognised in profit or loss. On sale or retirement of a revalued property, the surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Depreciation is calculated on a straight-line basis so as to write off the net cost or revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated using the straight-line method over the shorter of, the lease period or its estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation and were applied consistently over the current and prior years:

- Buildings 40 years
- Leasehold improvements 5–10 years
- Plant and equipment 2–10 years

	Consolidated		Credit Union	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000

17. Deposits

Measured at amortised cost:

Members' deposits	1,152,431	1,025,736	1,152,431	1,025,736
Redeemable preference shares	406	397	406	397
	1,152,837	1,026,133	1,152,837	1,026,133
Concentration of deposits				
Police	207,625	183,117	207,625	183,117
Nurses	92,371	84,239	92,371	84,239
Others	852,841	758,777	852,841	758,777
	1,152,837	1,026,133	1,152,837	1,026,133

Interest on deposits is calculated in accordance with the terms of each deposit and brought to account on an effective yield basis. Unpaid interest is accrued and reflected as a component of deposit balances. Deposits within South Australia comprise 86.1% (2022: 91%) of all deposits.

18. Payables due to other financial institutions

Measured at amortised cost:

RBA Term Funding Facility	19,029	48,000	19,029	48,000
	19,029	48,000	19,029	48,000

The Reserve Bank of Australia (RBA) Term Funding Facility represented the balance including accrued interest on funding provided by the Reserve Bank of Australia in response to the COVID-19 Pandemic. This funding was made in two tranches, one has been repaid in April 2023 with the remainder due in May 2024. This funding was made out of the sale of Notes issued by the MTG PCU Trust Series No.1 and an agreement by the Credit Union to repurchase these at the maturity dates referred to.

Notes to the Financial Statements

for the financial year ended 30 June 2023

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Measured at amortised cost:				
Trade payables and accruals	2,341	2,296	2,341	2,296
Lease liabilities	1,821	879	1,821	879
Settlement and clearing accounts	3,134	2,961	3,134	2,961
Total Payables other	7,296	6,136	7,296	6,136
Employee entitlements	3,232	2,984	3,232	2,984
Decommissioning commitments	323	284	323	284
Compliance and regulation	145	333	145	333
Off Balance sheet exposures	388	434	388	434
Total Provisions	4,088	4,035	4,088	4,035

Trade payables and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables generally have credit terms of up to 30 days.

Lease liabilities - lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise only fixed lease payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, if the Group changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Provisions are recognised when the Group has a present obligation, where the prepayment to settle the obligation is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled wholly within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

The provision for decommissioning commitments makes allowance for the estimated costs anticipated to remove plant and equipment from leasehold property occupied by the Group. These obligations will occur at the time of vacating the premises and/or termination of the lease.

Transactions are classified as contingent liabilities where the Group's obligations depend on uncertain future events and principally consist of obligations to third parties.

Items are classified as commitments where the Group has irrevocably committed itself to future transactions. These transactions will either result in the recognition of an asset or liability in future periods.

Compliance and regulation provisions relate to project and consulting costs in respect the Credit Union's ongoing compliance programs and regulatory changes that are underway.

Off-balance sheet exposure provisions comprise an allowance for exposures under guarantees issued by the Credit Union on behalf of customers and an estimate of expected losses incurred but not reported arising from disputed transactions on customer accounts and related claims.

20. Reserves

The nature and purpose of each reserve within equity is described below. Movements on reserves are presented in the table on the following page.

a) Capital Redemption Reserve

The Capital Redemption Reserve is used to redeem redeemable preference shares out of profit upon a member ceasing membership with the Credit Union. The current year movement represents an amount transferred from Retained Earnings equal to redemptions made in the financial year.

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for the financial year ended 30 June 2023

b) General Reserve

The General Reserve is used from time to time to transfer profits from Retained Earnings and to recognise the gains or losses that may arise on mergers with other mutual entities and from changes in ownership interests in subsidiaries that do not result in loss of control.

c) General Reserve for Credit Losses

The General Reserve for Credit Losses is established to recognise a provision for credit losses required for APRA regulatory purposes. Transfers to this reserve are appropriated from Retained Earnings.

d) Revaluation Reserve

Gains arising on revaluation of assets to their fair value net of related income tax are held in this reserve until disposal of the asset, whereby the accumulated gain is transferred to Retained Earnings.

e) Cash flow Hedging Reserve

This reserve represents cumulative hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit and loss consistent with the applicable accounting policy.

At the inception of the hedge the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions is documented. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the Statement of Comprehensive Income as the recognised hedged item. Hedge accounting is discontinued when the hedging relationship is revoked, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

	Capital Redemption Reserve	General Reserve	General Reserve for Credit Losses	Revaluation Reserve	Cash Flow Hedging Reserve	Total Reserves
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	618	11,748	1,140	5,069	-	18,575
Transfer from retained earnings	17	-	300	-	-	317
Gain arising on property revaluation	-	-	-	2,102	-	2,102
Deferred tax asset arising on property revaluation	-	-	-	(525)	-	(525)
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	691	-	691
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(173)	-	(173)
Gain on buyback of Cuscal Ltd shares	-	-	-	86	-	86
Tax credit on buyback of Cuscal Ltd shares	-	-	-	16	-	16
Gain arising on changes in fair value of interest rate swaps	-	-	-	-	1,859	1,859
Deferred tax asset arising on interest rate swaps	-	-	-	-	(465)	(465)
Changes in corporate tax rate	-	-	-	23	-	23
Balance at 30 June 2022	635	11,748	1,440	7,289	1,394	22,506
Transfer from retained earnings	20	-	110	-	-	130
Loss arising from revaluation of Cuscal Ltd shares	-	-	-	(427)	-	(427)
Income tax relating to revaluation of Cuscal Ltd shares	-	-	-	128	-	128
Loss arising from changes in fair value of interest rate swaps	-	-	-	-	(150)	(150)
Deferred tax asset arising on interest rate swaps	-	-	-	-	45	45
Changes in corporate tax rate	-	-	-	(251)	(93)	(344)
Balance at 30 June 2023	655	11,748	1,550	6,739	1,196	21,888

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for the financial year ended 30 June 2023

	Capital Redemption Reserve	General Reserve	General Reserve for Credit Losses	Revaluation Reserve	Cash Flow Hedging Reserve	Total Reserves
Credit Union	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	618	11,748	1,140	5,069	-	18,575
Transfer from retained earnings	17	-	300	-	-	317
Gain arising on property revaluation	-	-	-	2,102	-	2,102
Deferred tax asset arising on property revaluation shares	-	-	-	(525)	-	(525)
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	691	-	691
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(173)	-	(173)
Gain on buyback of Cuscal Ltd shares	-	-	-	86	-	86
Tax credit on buyback of Cuscal Ltd shares	-	-	-	16	-	16
Gain arising on changes in fair value of interest rate swaps	-	-	-	-	1,859	1,859
Deferred tax asset arising on interest rate swaps	-	-	-	-	(465)	(465)
Changes in corporate tax rate	-	-	-	23	-	23
Balance at 30 June 2022	635	11,748	1,440	7,289	1,394	22,506
Transfer from retained earnings	20	-	110	-	-	130
Loss arising from revaluation of Cuscal Ltd shares	-	-	-	(427)	-	(427)
Income tax relating to revaluation of Cuscal Ltd shares	-	-	-	128	-	128
Loss arising from changes in fair value of interest rate swaps	-	-	-	-	(150)	(150)
Deferred tax asset arising on interest rate swaps	-	-	-	-	45	45
Changes in corporate tax rate	-	-	-	(251)	(93)	(344)
Balance at 30 June 2023	655	11,748	1,550	6,739	1,196	21,888

21. Related party transactions

a) Parent Entity

Police Credit Union Ltd is the parent entity and ultimate holding company of the Police Credit Union Group of companies.

b) The Group

Details of the ownership interests in, and amounts owed to/by the Group are disclosed below:

	Ownership Interest		Credit Union	
	2023 %	2022 %	2023 \$	2022 \$
Parent Entity				
Police Credit Union Ltd	-	-	-	-
Controlled Entity				
PCU Services Pty Ltd	100	100	1	1
Ian Berry Insurance Services Pty Ltd	100	100	1	1
MTG PCU Trust Repo Series No.1	100	100	20	20
			22	22

c) Key Management Personnel

Key Management Personnel have been defined as: Police Credit Union Ltd board of eight Directors and seven Executive Managers. Close members of family are those family members who may be expected to influence or be influenced by that individual in their dealings with the Group. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependents of the individual or the individual's domestic partner. All loans to key management personnel were subject to normal terms and conditions and there were no breaches of

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these terms and conditions during the year. All loans are in accordance with standard lending policies. No guarantees were given to or received from key management personnel during the period. No impairment losses have been recorded against loan balances outstanding during the period and no specific allowance was made for impairment of these loans.

	Consolidated	
	2023	2022
	\$	\$
Key management personnel compensation		
Short-term employee benefits - including superannuation guarantee levy	2,842,990	2,857,022
Other long-term benefits - accruals for long service leave	40,969	16,413
	2,883,959	2,873,435

	Transaction Accounts	Investment Accounts	Loans Accounts
	\$	\$	\$
Transactions conducted on accounts of key management personnel 2023			
Balance at beginning of year*	(1,257,128)	(5,000)	5,054,129
Loans advanced	-	-	2,348,398
Deposits/repayments	(5,489,502)	(315,000)	(491,919)
Withdrawals	5,487,223	3,484	-
Interest paid	(17,085)	(3,484)	-
Interest charged/(received)	2,674	-	199,538
Net balance at end of year	(1,273,818)	(320,000)	7,110,146
Year end balances represented by:			
Deposit balances	(1,285,131)	(320,000)	-
Overdraft/loan balances	11,313	-	7,110,146
Net balance at end of year	(1,273,818)	(320,000)	7,110,146

Transactions conducted on accounts of key management personnel 2022			
Balance at beginning of year*	(1,218,141)	(5,000)	3,863,396
Loans advanced	-	-	1,932,365
Deposits/repayments	(5,358,484)	-	(819,421)
Withdrawals	5,041,404	40	-
Interest paid	(4,478)	(40)	-
Interest charged/(received)	2,230	-	92,991
Net balance at end of year	(1,537,469)	(5,000)	5,069,331
Year end balances represented by:			
Deposit balances	(1,401,683)	(5,000)	-
Overdraft/loan balances	(135,786)	-	5,069,331
Net balance at end of year	(1,537,469)	(5,000)	5,069,331

*The opening balances may not be consistent with the closing balances reported in the prior year due to changes in the composition of accounts over which Key Management Personnel have control or influence.

Notes to the Financial Statements

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	2023 \$'000	2022 \$'000
Transactions within the wholly owned group:		
The equitable right to loans originated by the Credit Union were sold to the MTG PCU Trust during the year giving rise to the following intra-group transactions to which the Credit Union is a party:		
Sale of loans	71,633	82,258
Receipt of custodian and service fee	251	247
Payment of collections or loans	85,897	72,686
Payment for interest offset benefit	1,410	871
Receipt of note interest	9,381	2,266
Receipt of distributions from MTG PCU Trust	2,724	4,640

22. Financial instruments

a) Financial risk management objectives

The nature of banking results in an exposure to liquidity, credit and market risk. The Group controls these risks by establishing policies and limits within which business is conducted. To manage these risks, two committees have been established to ensure that the policies and limits are observed. The Asset and Liability Committee (ALCO) is primarily responsible for monitoring the Group's exposures to liquidity and market risk. Credit is advanced with specific or general approval of the Credit Risk Committee who ensures that credit is advanced to credit worthy members and where appropriate against security.

b) Credit risk

Loans and receivables disclosed in Notes 12, 13 and 14 are subject to the risk of default on Member or counterparty non-performance. The Credit Risk Committee sets approval limits within which officers may approve loans and their terms while the Board sets limits for exposure to ADIs. All loan advances are reported to the Credit Committee and hindsight reviews are conducted to ensure that lending is conducted within defined approval limits. Allowances for credit losses are disclosed in Note 15.

c) Market risk

Primarily the Credit Union faces interest rate risk. This risk arises from the differing repricing characteristics of banking assets and liabilities.

This risk and changes to the structural profile of banking assets and liabilities are monitored by ALCO. On a monthly basis, the net interest sensitive position is analysed using earnings and valuation-based techniques and reported to Key Management Personnel. In doing so, cognisance is taken of embedded optionality, such as loan prepayments and accounts where the behaviour differs from the contractual position. Interest rate risk limits are set in terms of both changes in forecast net interest income and economic value of equity. Strategies to mitigate interest rate risk are implemented through the use of interest rate swaps structured around the net gap position that is deemed unfavourable.

The repricing gaps for the Group's banking portfolios are shown on the following page. All assets, liabilities and derivative instruments are allocated in gap intervals based on their repricing characteristics. Assets and liabilities for which no specific contractual repricing or maturity dates exist are placed in gap intervals based on management's judgement and statistical analysis, as determined by the most likely repricing behaviour.

Forecasted net interest income, and thus net profit before tax, is susceptible to movements in market interest rates. Based on a 100 basis point parallel increase in the year-end yield curve, the Credit Union expects to gain approximately \$2.298 million (2022: \$1.554 million) of forecast interest margin without management intervention. The Credit Union's portfolio of loans and deposits are exposed to falling interest rates.

The repricing analysis below identifies the net interest sensitive position within the banking book.

Repricing gap	0–3 months \$'000	>3–6 months \$'000	>6 months–1 year \$'000	>1–3 years \$'000	Over 3 years \$'000
2023					
Interest rate sensitivity gap: asset/(liability)	312,954	(92,914)	(93,913)	(11,957)	(7,479)
Cumulative interest rate sensitivity gap	312,954	220,040	126,127	114,170	106,691
% of assets	24.2%	17.0%	9.7%	8.8%	8.2%
2022					
Interest rate sensitivity gap: asset/(liability)	235,713	(100,480)	(72,448)	32,307	1,693
Cumulative interest rate sensitivity gap	235,713	135,233	62,785	95,092	96,785
% of assets	19.8%	11.4%	5.3%	8.0%	8.1%

Notes to the Financial Statements

for the financial year ended 30 June 2023

d) Interest rate swaps

The Group enters into interest rate swaps to manage its exposure to interest rate risk. The interest rate swap agreements pay an agreed fixed interest rate, receiving floating interest based on the 90-day BBSW rate, reset quarterly. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of a change in the BBSW component of interest rates on deposits and its impact on the interest cash flows.

The interest rate swaps are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. All the interest rate swaps are designated as hedging instruments in cash flow hedge relationships of highly probable forecast transactions.

The estimate of the undiscounted net cash flow arising from the swap portfolio at the prevailing interest rates is reflected in the table below.

Cash inflow/(outflow) on interest rate swaps	Less than 1 month \$'000	>1–3 months \$'000	>3 months–1 year \$'000	>1–3 years \$'000	Over 3 years \$'000	Total \$'000
2023	149	90	988	643	94	1,964
2022	(28)	(52)	544	1,249	227	1,940

The fair values, the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the reporting date are disclosed in the table below.

Consolidated and Credit Union	Weighted average fixed payment rate		Notional principal		Fair value	
	2023 %	2022 %	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Expiry date of contracts						
Less than 1 year	0.91%	0.00%	14,000	-	462	-
1 to 2 years	1.81%	0.31%	18,000	14,000	706	590
2 to 3 years	1.18%	0.78%	3,000	18,000	229	680
3 years and over	2.92%	0.49%	10,500	9,500	484	562
Total			45,500	41,500	1,881	1,832

The fair value of derivatives (interest rate swaps) is calculated using a discounted cash flow model. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates are discounted at a rate that reflects the credit risk of various counterparties. Thus, the basis of determining fair value of derivatives (interest rate swaps) liabilities is classified as Level 2.

e) Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient resources to meet its obligations as they fall due or will have to do so at excessive cost. This risk arises from the nature of Group's business where it makes loans available for terms up to 40 years funded from deposits that are at-call or repayable over terms of up to five years. The management of liquidity is overseen by the ALCO who have implemented processes and procedures ensuring that all foreseeable commitments, including deposit withdrawals, can be met when due. These include:

- Management of both daily and forecasted cash flows;
- Maintaining a diversified and stable funding base comprising retail deposits;
- Ensuring exposures to large deposits are maintained within manageable limits and tenors and monitored to anticipate mismatches between anticipated inflows and outflows within different time periods;
- Maintaining a portfolio of cash at-call, negotiable certificates of deposit and debt securities issued by other ADIs over and above the prudential requirements. The Credit Union is a non-transactional member of the Reserve Bank Information Transfer System allowing it to access its certificates of deposits and debt securities immediately through repos with the Reserve Bank; and
- The Credit Union has established a self-securitisation program that allows it to access up to \$200 million (2022: \$183 million) of an RBA Repo security during liquidity crisis.

Notes to the Financial Statements

for the financial year ended 30 June 2023

The table below details the maturity amounts of the Group's financial liabilities presented on the earliest date on which the Group will be required to pay the amount due together with interest. Interest that will accrue from year-end until maturity of the term deposit is reflected in the column headed "Future interest".

Maturity analysis of non-derivative financial liabilities:

Cash flows payable in	Less than 1 month \$'000	1–3 months \$'000	>3 months– 1 year \$'000	>1–3 years \$'000	Over 3 years \$'000	Future interest \$'000	Total \$'000
Credit Union 2023							
Deposits	638,134	131,761	357,981	25,242	11,306	(11,587)	1,152,837
RBA term funding facility	-	-	19,046	-	-	(17)	19,029
Borrowings	-	-	-	-	232,660	-	232,660
Lease liabilities	57	99	280	788	707	(110)	1,821
Payables (other)	5,475	-	-	-	-	-	5,475
Total Credit Union	643,666	131,860	377,307	26,030	244,673	(11,714)	1,411,822

Consolidated 2023

Deposits	638,134	131,761	357,981	25,242	11,306	(11,587)	1,152,837
RBA term funding facility	-	-	19,046	-	-	(17)	19,029
Lease liabilities	57	99	280	788	707	(110)	1,821
Payables (other)	5,475	-	-	-	-	-	5,475
Total Consolidated	643,666	131,860	377,307	26,030	12,013	(11,714)	1,179,162

Credit Union 2022

Deposits	681,878	106,409	218,232	20,212	891	(1,489)	1,026,133
RBA term funding facility	-	-	29,045	19,046	-	(91)	48,000
Borrowings	-	-	-	-	236,948	-	236,948
Lease liabilities	53	107	443	234	66	(24)	879
Payables (other)	5,257	-	-	-	-	-	5,257
Total Credit Union	687,188	106,516	247,720	39,492	237,905	(1,604)	1,317,217

Consolidated 2022

Deposits	681,878	106,409	218,232	20,212	891	(1,489)	1,026,133
RBA term funding facility	-	-	29,045	19,046	-	(91)	48,000
Lease liabilities	53	107	443	234	66	(24)	879
Payables (other)	5,257	-	-	-	-	-	5,257
Total Consolidated	687,188	106,516	247,720	39,492	957	(1,604)	1,080,269

Deposits include substantial member savings and investment accounts that are contractually at-call. Experience is that this funding provides a source of long-term funding for the Group that has been stable over time.

f) Fair values of financial instruments

Financial assets: carried at fair value

Based on the extent that quoted prices are used in the calculation of fair value these assets are classified into a hierarchy using levels where fair value is defined as follows:

Level 1	Fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.
Level 2	Fair value is determined through valuation techniques based on observable inputs, either directly, such as prices, or indirectly, such as derived from prices. This category includes instruments valued using quoted active market prices for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
Level 3	Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements

for the financial year ended 30 June 2023

Financial assets and liabilities: not carried at fair value

Financial assets and liabilities that are not carried at fair value are presented in the table below. The categories not at fair value are:

- Loans and advances, carried at amortised cost, net of individually and collectively assessed allowances for impairment. Their fair value is estimated using discounted cash flow models. The discount rate used is the current effective variable rate for variable rate loans and for fixed rate loans the current market estimated rate for the same term to maturity of the loans.
- Deposits are carried at their original amount plus accumulated interest since the date of deposit. The fair value is estimated using discounted cash flow models. The discount rate used is the original deposit rate, adjusted for changes in deposit interest rates and margins.

Balance sheet items reflecting carrying accounts and related fair values are presented in the table below together with the level in the fair value hierarchy:

	Consolidated		Credit Union		Fair value hierarchy
	2023		2023		
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000	
Financial Assets					
Cash and bank balances	47,191	47,191	20,724	20,724	Level 1
Investment instruments	167,570	167,417	167,570	167,417	Level 2
Loans and advances	1,056,014	1,039,430	1,056,014	1,039,430	Level 2
Cuscal Ltd shares	2,378	2,378	2,378	2,378	Level 3
Notes MTG PCU Trust Repo Series No.1	-	-	259,127	256,397	Level 2
Receivables other	3,239	3,239	3,239	3,239	Level 1
Derivative assets	1,881	1,881	1,881	1,881	Level 2
Total Financial Assets	1,278,273	1,261,536	1,510,933	1,491,466	
Financial Liabilities					
Deposits	1,152,837	1,154,558	1,152,837	1,154,558	Level 2
Payables due to other financial institutions	19,029	18,095	19,029	18,095	Level 2
Borrowings	-	-	232,661	232,661	Level 3
Payables other	7,296	7,296	7,296	7,296	Level 1
Total Financial Liabilities Consolidated	1,179,162	1,179,949	1,411,823	1,412,610	

	Consolidated		Credit Union		Fair value hierarchy
	2022		2022		
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000	
Financial Assets					
Cash and bank balances	48,555	48,555	26,937	26,937	Level 1
Investment instruments	151,726	151,004	151,726	151,004	Level 2
Loans and advances	968,757	946,362	968,757	946,362	Level 2
Cuscal Ltd shares	2,805	2,805	2,805	2,805	Level 3
Notes MTG PCU Trust Repo Series No.1	-	-	258,566	258,566	Level 2
Receivables other	1,519	1,519	1,519	1,519	Level 1
Derivative assets	1,832	1,832	1,832	1,832	Level 2
Total Financial Assets	1,175,194	1,152,077	1,412,142	1,389,025	
Financial Liabilities					
Deposits	1,026,133	1,024,694	1,026,133	1,024,694	Level 2
Payables due to other financial institutions	48,000	46,869	48,000	46,869	Level 2
Borrowings	-	-	236,948	236,948	Level 3
Payables other	6,136	6,136	6,136	6,136	Level 1
Total Financial Liabilities Consolidated	1,080,269	1,077,699	1,317,217	1,314,647	

Notes to the Financial Statements

for the financial year ended 30 June 2023

g) Investment securities

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Cuscal Ltd shares	2,378	2,805	2,378	2,805
Notes MTG PCU Trust Repo Series No.1	-	-	259,127	258,566
	2,378	2,805	261,505	261,371

The Group's investment in Cuscal Ltd shares is unquoted equity investment, is stated at fair value and is classified as Level 3 in the fair value hierarchy. In the prior year the Group has participated in the share buy back and the number of shares has changed to 1,780,032 from 1,893,249 representing a minority holding in the only class of equity shares in the capital structure of Cuscal Ltd. The change in the net fair value of the Cuscal Ltd shares represents a fair value loss of \$427 thousand (2022: gain of \$691 thousand) for the year and is reflected in the other comprehensive income. The fair value has been measured by reference to recent market transaction prices, where available and where not available a range of valuation methods were used based on underlying cash flows of the entity.

Composition of MTG PCU Trust Repo Series No.1 is represented by \$239.4 million of Class A notes and \$17.6 million of Class B notes together with accrued interest and distributions receivable. The Class A notes are Repo-eligible.

At year end \$23.860 million (2022: \$55.660 million) of the Class A notes had been sold under repurchase agreement with the Reserve Bank of Australia in support of the RBA Term Funding Facility in Note 18.

23. Capital management

Capital is managed at a Group level to achieve a prudent balance between maintaining capital ratios in support of its business growth while delivering value services to Members. The Group comprises of the entities that are listed in Note 21. The capital level is subject to externally imposed requirements at a Credit Union and Group level. The accounting and the regulatory scope of consolidation are consistent.

The Group has an Internal Capital Adequacy Assessment Process (ICAAP) complying with the Basel requirements for a risk-based assessment of capital levels having regard to the impact of risk concentration, residual risk, diversification and the results of stress tests. In setting the capital level the Group has regard to sound governance, appropriate business practices, protecting depositors and maintaining adequate liquidity. The internally assessed capital level is determined based on the risks as assessed by management rather than a prescribed regulatory formula, and as such is more widely encompassing. The Group's governance process includes an assessment of capital forecasts, allowing for asset growth within capital constraints to ensure that targeted capital ratios are maintained. The objective of this process is to ensure that appropriate capital is maintained, and minimums imposed by the Group's regulators, APRA are met. The guidelines developed by the Basel committee form the basis for determining the capital requirements of the Group. For regulatory purposes, the Group's capital comprises two tiers: Permanent forms of capital comprising general reserves and retained earnings (Tier 1 Capital) and general reserves for credit losses (Tier 2 Capital).

Risk-weighted assets are determined by applying prescribed risk weightings to on-and-off-balance sheet exposures according to the relative credit risk of the counterparty and including a notional risk weighting for operational related risks in overall risk-weighted assets.

The capital adequacy ratio reflects the capital strength and is determined by dividing approved capital by risk-weighted assets held. The Group's capital adequacy ratio at year-end amounted to 15.95% (2022: 15.51%). The Credit Union's capital adequacy at year-end amounted to 15.95% (2022: 15.51%).

Notes to the Financial Statements

for the financial year ended 30 June 2023

Details of the components of Total Capital and risk-weighted assets are set out in the table below. This disclosure uses the post 1 January 2018 common disclosure template fully applying the Basel III regulatory adjustments as implemented by APRA.

	Consolidated		Credit Union	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Common Equity Tier 1 Capital (CET1)				
Retained Earnings	90,100	83,360	90,100	83,360
Accumulated other comprehensive income (OCI) and reserves:				
Total Accumulated OCI and reserves (*)	12,403	12,383	12,403	12,383
Revaluation reserves	7,935	8,683	7,935	8,683
Accumulated OCI and reserves	20,338	21,066	20,338	21,066
Deferred fee income	272	414	272	414
	20,610	21,480	20,610	21,480
CET1 Capital before regulatory adjustments	110,710	104,840	110,710	104,840
Regulatory Adjustments:				
Other Intangibles	894	846	894	846
Cash-flow hedge reserve	1,710	1,859	1,710	1,859
Investments in other ADIs - Cuscal Ltd	2,378	2,805	2,378	2,805
DTA arising from temporary differences	267	273	267	273
Total Regulatory Adjustments to CET1	5,249	5,783	5,249	5,783
Common Equity Tier 1 Capital	105,461	99,057	105,461	99,057
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	105,461	99,057	105,461	99,057
General reserve for credit losses	1,550	1,440	1,550	1,440
Tier 2 Capital	1,550	1,440	1,550	1,440
Total Capital	107,011	100,497	107,011	100,497
Total Risk-Weighted Assets based on APRA standards	671,087	647,761	671,087	647,761
Capital Ratios and Buffers				
Common Equity Tier 1 (as a % of risk-weighted assets)	15.72%	15.29%	15.72%	15.29%
Tier 1 (as a % of risk-weighted assets)	15.72%	15.29%	15.72%	15.29%
Total Capital (as a % of risk-weighted assets)	15.95%	15.51%	15.95%	15.51%
Buffer Requirement:	7.00%	7.00%	7.00%	7.00%
Of which: APRA prescribed minimum CET1	4.50%	4.50%	4.50%	4.50%
Of which: capital conservation buffer requirement	2.50%	2.50%	2.50%	2.50%
Of which: ADI Specific countercyclical buffer requirement	0.00%	0.00%	0.00%	0.00%
Common Equity Tier 1 available to meet buffers	8.72%	8.29%	8.72%	8.29%

(*) The table below represents the reconciliation of the Total accumulated OCI and reserves:

Total Accumulated OCI and reserves	21,888	22,506	21,888	22,506
Revaluation reserves	(7,935)	(8,683)	(7,935)	(8,683)
General reserve for credit losses	(1,550)	(1,440)	(1,550)	(1,440)
Total Accumulated OCI and reserves for capital	12,403	12,383	12,403	12,383

24. Significant Alliances

The Group has a significant alliance with Cuscal Ltd. Cuscal Ltd operates a financial switching service allowing access to payment and settlement services such as eftpos, direct entry, BPAY® and Visa services. Police Credit Union also holds shares in Cuscal Ltd.

Directors' Declaration

for the financial year ended 30 June 2023

The Directors declare that:

1. in the Directors' opinion, there are reasonable grounds to believe that the Group and the Credit Union will be able to pay its debts as and when they become due and payable;
2. the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements;
3. 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 the financial position and performance of the Group and the Credit Union.

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

On behalf of the Directors



Alexander Paul Zimmermann
Chairman

Adelaide, 28 September 2023



Independent Auditor's Report

To the members of Police Credit Union Limited

Opinion

We have audited the consolidated **Financial Report** of Police Credit Union Limited (the **Group** Financial Report). We have also audited the **Financial Report** of Police Credit Union Limited (the Company Financial Report).

In our opinion, the accompanying Group Financial Report and Company Financial Report of Police Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's and Company's financial position as at 30 June 2023 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective **Financial Reports** of the Group and Company comprise:

- Statements of financial position as at 30 June 2023;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of Police Credit Union Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Reports* section of our report.

We are independent of the Group and Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Police Credit Union Limited, would be in the same terms if given to the Directors as at the time of this Auditor's Report.



Other Information

Other Information is financial and non-financial information in Police Credit Union Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Reports does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.


Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Reports.

A further description of our responsibilities for the audits of the Financial Reports is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our Auditor's Report.


KPMG


Neil Ediriweera
Partner

Adelaide

29 September 2023



Police Credit Union Ltd

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ABN 30 087 651 205

AFSL/Australian Credit Licence 238991

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