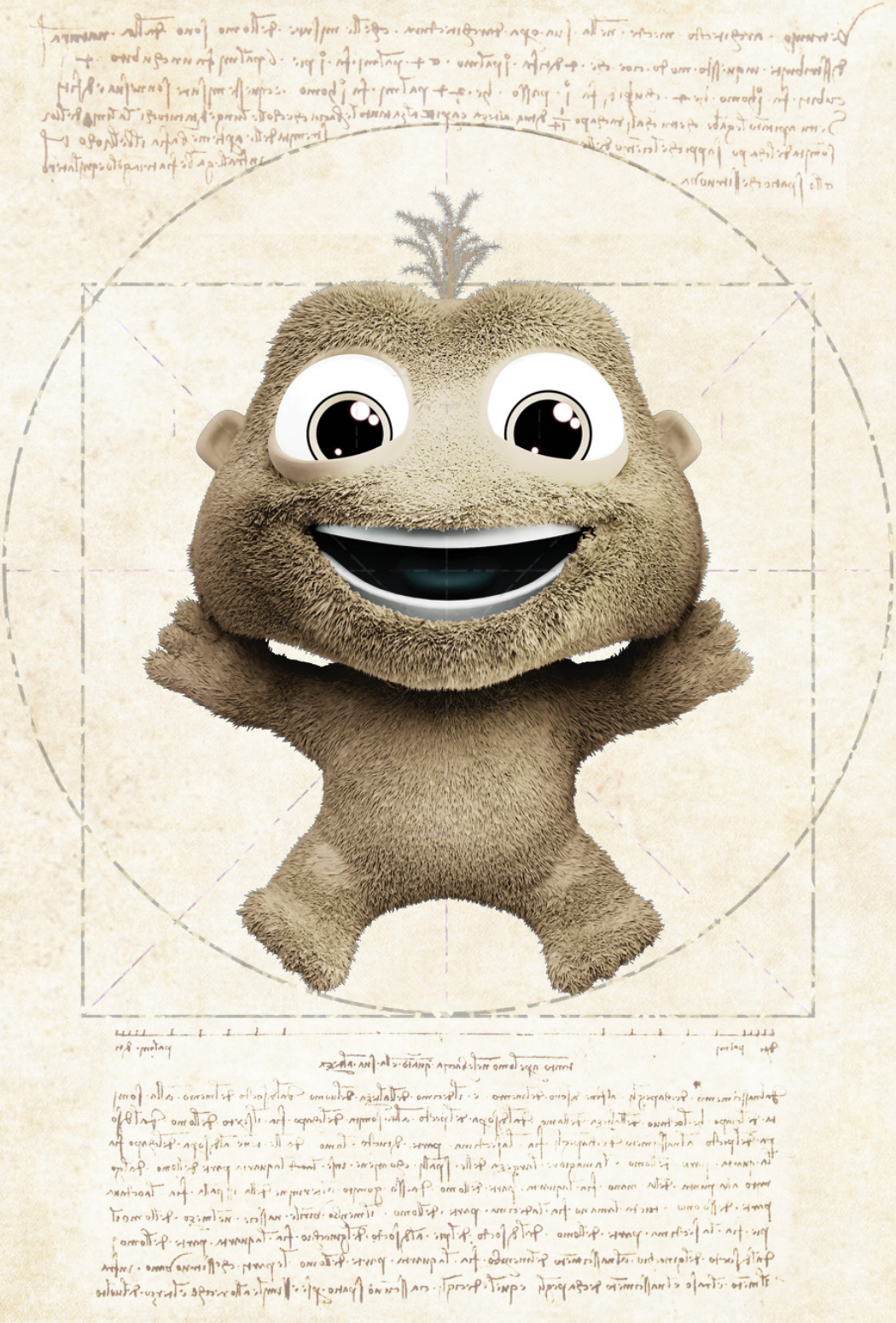
Police Credit Union
Better Banking



# 2018 Annual Report

## Major Sponsorships


## A major sponsor of Crime Stoppers SA


Supporting **Better Communities**

## Major Business Partners



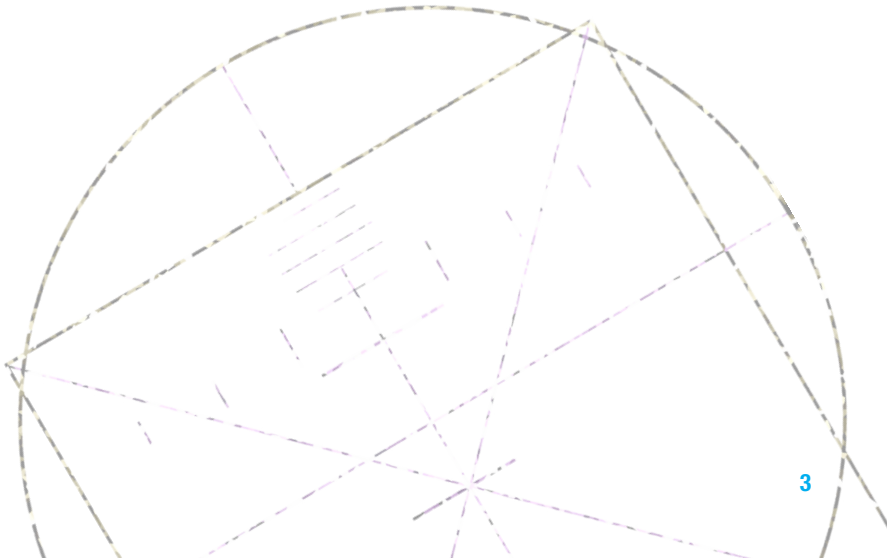
## Auditors


KPMG
151 Pirie St
Adelaide SA 5000

## Solicitors


Piper Alderman
16/70 Franklin St
Adelaide SA 5000

*Front Cover: Made most famous by Leonardo Da Vinci, the Vitruvian Man or the Poccuian Man in our instance, has long been a symbol of venustus (beauty) in the human form. The human body composed perfectly between a circle and square represents the balance between female and masculine influences or a paradox between nature and architecture. Much like the human body, Police Credit Union follows the ideology of the Vitruvian Man where the equilibrium of function, nature, architecture and humanity is a fine balance of symmetries and proportions. As an organisation working in, at times, a difficult economic environment, we continually strive to achieve a 'customer experience second to none' whilst achieving growth. We also follow an ethos to give back to the environment and community in which we operate. We believe that Police Credit Union will continue to sustain future success through entrepreneurship, firmitus (strength), utilitus (functionality) and our community spirit.*



# Chairman's and CEO's Report

In this, our 48th year of providing better banking to our communities, we are proud to report yet another year of service excellence, new milestones and high-achievement. The results presented in the 2018 Annual Report were only made possible by the incredibly dedicated and outstanding Police Credit Union team who served our customer-shareholders in a positive, thoughtful, responsible and diligent manner.

We continue to operate in a challenging and persistently low-interest rate environment, characterised by moderate but improving economic conditions, relatively high asset prices and household debt, a backdrop of escalating geo-political tensions and an intensifying regulatory reform agenda. Whatever the outcomes of the Royal Commission into Banking, there is little doubt that the behaviours of several major financial institutions have brought the financial services industry into disrepute. Our decision to retain our credible, trusted and reliable credit union brand and our continued focus on strengthening our positive culture ensures that we are well-positioned to continue our path of sustainable growth and strategic success.

being a customer-owned financial institution, we believe our Members deserve more from us

## Customer Experience focus

Core to delivering strategic success, Police Credit Union remains passionately committed to its major goal to deliver a customer experience that is second to none. We continue to implement numerous important initiatives to achieve improvement in all touch points that impact the Member relationship, both internally and customer-facing. For the period to June 2018, Police Credit Union achieved our highest-ever customer satisfaction rate of 93.15%, successfully achieving our benchmark for a 9th consecutive year. Friendly service, professional approach, staff knowledge and account access were rated the highest attributes. Testimony to the competitive strength of our product range and the positive customer engagement, products per member increased to a record 5.17 for the period.

Being a customer-owned financial institution, we believe our Members deserve more from us than what they would receive from a major bank. Accordingly, each year we calculate member value being the monetary quantum of benefit that our Members receive on average. This process entails undertaking a detailed comparison against the major banks, giving specific consideration to service standards, our better loan and deposit interest rates, free access services, and fairer fees and charges. Member value was calculated as $254.66 per member, or, in aggregate, $10.072 million pre-tax, for the 12 months to 30 June 2018, representing an increase of 5% from the previous period.

During the period of review, Police Credit Union, despite sustained funding and margin pressures, continued to maintain some of the most competitive home and investment loans, personal loans, business loans and savings and investment accounts in the nation. Ahead of many major banks we successfully launched NPP Fast Payments and Apple/Android Pay digital-wallet. We also invested heavily in developing a new contemporary in-branch design which was recently revealed in our Adelaide head-office branch much to the delight of Members and our employees. This new design template will be rolled-out to all locations during the forward planning period.

## Investment in Community and Environment

A strong sense of corporate social responsibility is central to Police Credit Union's philosophy and is a key strategic focus. Providing meaningful and relevant contributions to our community and environment have always been a measure of our success. During the year we invested a record $450,000 through major sponsorships, volunteer programs and charitable donations. Supporting the broader community is nothing new to our organisation. Over the last 10 years, Police Credit Union has invested more than $3.6 million in fulfilling our community-engagement objectives.

As part of our pledge to operate in an environmentally sustainable manner, we remained committed to reducing our carbon emissions by at least 5% each year, targeting a carbon neutral position by 2020. During the current period however, we well-exceeded our target and achieved a 100% reduction in our carbon footprint. This brought forward our targeted Carbon-neutral position by 2 years, with a renewed commitment to maintaining a carbon-neutral status in our forward plan. In fact, over the past 10 years, not counting the thousands of trees propagated and planted in conjunction with partner organisations, Police Credit Union has neutralised and offset 2,540 tonnes of carbon from the atmosphere.

Nonetheless, Police Credit Union remains committed to expanding the scope of its initiatives in this area well into the long-term planning period and beyond. Employees will continue to be engaged to actively participate in this important area of focus which underpins the core elements of mutuality and community. Looking forward, the Credit Union has developed a new Community Engagement Index to measure the success of our ongoing commitment in this important area and enhance oversight capability. The Index incorporates key processes and outcomes of community engagement including integrity, inclusion, deliberation and influence.

we well-exceeded our target and achieved a 100% reduction in our carbon footprint


## People, Culture and Risk achievements

Becoming a best practice employer requires continuous effort on several fronts including:

- engaging staff through targeted learning programs;
- mentoring employees across defined career paths;
- rewarding staff through acknowledgement and appropriate remuneration levels, incentives and working conditions;
- building team based and motivation programs;
- building enhanced communication platforms that support ubiquitous and collaborative workplaces;
- maintaining a safe workplace and committing to practical and sustainable health and well-being initiatives; and
- inspiring achievement and innovative thinking through reward-based programs.

Our continued investment in these important areas of employee engagement has resulted in a stronger, more resilient and high-performance culture. As a result, we achieved an outstanding overall employee satisfaction rating of 88.84%, incorporating a best-practice employee engagement score of 92.68% for the 2018 period.

Police Credit Union recognises that a positive organisational culture is critical to ensuring we can continue to deliver sustainable performance outcomes. Not content with our achievements in this area and unwilling to succumb to the prospect of future complacency, we plan to implement advanced Culture Indices designed to monitor and strengthen key attributes fundamental to culture measurement and oversight. There will be two indices, one of which will aggregate various 'hard' risk-based measures relating more to Police Credit Union's performance against non-negotiable requirements, and the other will focus on the people-based aspect of culture, measuring those aspects of culture which relate to our employees and/or customer engagement outcomes.

As the custodian of its depositors' funds, the importance of maintaining strong risk and compliance frameworks is of primary consideration to Police Credit Union. One of the key reasons we were able to effectively withstand the impact of global economic volatility and uncertainty was our strong focus on maintaining and enhancing sound and holistic risk management and compliance systems and frameworks. These initiatives have served us well and remain fundamental to our future success. Continued investment in these areas will ensure that the organisation maintains a robust risk management and compliance culture and, in turn, is able to withstand many existing and emerging risks that will confront us during the planning period and beyond. We sustained a record low risk-index measure of 39.2 for the 2018 period.

Notwithstanding the 99.99% reliability uptime of customer-facing banking services during 2018, the Credit Union has also developed a strategic Organisational Resilience Index. The index will further strengthen oversight capability of cyber-security and business interruption risks thereby ensuring that we are well-equipped to respond and recover from any potential threats to our business operations. Moving forward however, we remain vigilant to the importance of our critical and fundamental first line of defence – our policy framework. Substantial investment in this area will ensure that we remain steadfast, accountable and diligent in our ongoing commitment to policy review, improvement and, most importantly, compliance.

We have successfully implemented important non-financially based initiatives as an integral balance to our strategy. We are incredibly proud of the ethical, diverse, positive and inclusive culture throughout our workplace. As a result of the tremendous contribution and personal commitment of our people, we have achieved outstanding results across all areas of non-financial performance.

### Summary of Non-Financial Key Performance Results

| | 30 June 2018 | Strategic Target Achieved |
|---|---|---|
| Customer Satisfaction Rating | 93.15% | ✓ |
| Products per Member | 5.17 | ✓ |
| Member Value for the 12-month period | $255 | ✓ |
| Employee Engagement Index | 88.84 | ✓ |
| Average Significant Risk Score | 39.2 | ✓ |
| Annual Corporate Social Responsibility Spend ($'000) | $450K | ✓ |
| Annual Reduction in Carbon Emissions | 100% | ✓ |

we are incredibly proud of the ethical, diverse, positive and inclusive culture throughout our workplace

## Financial Performance Overview

As a regulated Approved Deposit-Taking Institution, the successful achievement of sustainable long-term financial outcomes is considered fundamental to our business integrity. Financial stability and success not only inspires confidence amongst all stakeholders including customer-shareholders, depositors, employees and the general public, it also ensures that your Credit Union is able to achieve strategic growth outcomes; sustain, invest and enhance its current operational capacity; continue to build shareholder value; invest in key areas of innovation and infrastructure; and importantly, successfully implement our strategic plan. As a mutual, 100% of our profits are retained within the business and reinvested to deliver superior customer experience outcomes.

During the 2018 financial period, Police Credit Union achieved a profit after tax result of $4.47 million. Whilst this result is 11.7% lower than last year, that previous period included a one-off gain of $1.288 million after tax resulting from the Credit Union finalising the strategic sale of its financial planning subsidiary. As outlined in the Statement of Comprehensive Income, and based on its "continuing operations", the profit after tax result for the 2018 financial period represents a 18.38% improvement on the previous period, excluding the previously referred to one-off gain from the prior year. Members reserves concluded the year at $78.5 million, an increase of 7.26%. Police Credit Union achieved a 10.3% increase in total assets, an increase to $1.04 billion as at year end.

The following table presents a summary of the key financial performance metrics reflecting the sound performance of your Credit Union. These results meet or exceed our long-term strategic targets and compare favourably to comparative industry benchmarks.

### Summary of Financial Performance Results

| | 30 June 2018 | Strategic Target Achieved |
|---|---|---|
| Profit After Tax | $4.47 million | ✓ |
| Group Assets | $1.040 billion | ✓ |
| Growth in Total Assets | 10.3% | ✓ |
| Return on Assets | 0.45% | ✓ |
| Return on Equity | 5.91% | ✓ |
| Cost to Income | 76.10% | ✓ |
| Capital Adequacy | 14.68% | ✓ |

Looking more closely at our financial performance we are pleased to report the following:

- **Net Interest Income** increased by 8.7% during the year, despite affording investors and borrowers with market leading loan rates during a persistently low rate and fiercely competitive lending environment. The result comprised an increase of 7.11% in interest income, reflecting continued downward pressure on lending margins and offset by growth of 7.86% in loan advances for the period. Whilst the cost of retail funding remained relatively high, careful margin management resulted in interest expenses being contained to a 5.43% increase for the period.

- **Fee and Commission Income** reduced by 16.34% to $5.4 million, largely attributed to the sale of the financial planning subsidiary in the previous period, coupled with a continued overall commitment to contain fees and charges for Members at or below cost recovery. The insurance operations of Police Credit Union managed over 28,400 insurance policies during the period, representing gross written premiums of $11.8 million.

- **Impairment Losses** on loans increased by a modest 1.18% to $172k, despite loan advances growing by 7.86%. This is an outstanding achievement reflecting continued strength in ensuring prudent and responsible lending practices, strong compliance frameworks, careful portfolio management, and continued high quality growth in loan advances.

- **Operating Expenses** decreased by 1.11% for the period, reflecting continued focus to contain costs and implement numerous efficiency initiatives without any negative impact to customers. Operating efficiency as measured by the operating cost to income ratio closed the year at 76.1%, and asset efficiency as measured by operating cost to average assets ratio improved to 2.1% for the period.

- **Total Assets** grew by 10.3% to $1.040 billion at year end. This was underpinned by an increase of 7.86% in loan advances to members, totalling $858 million. Our loans portfolio comprises 85% residential, 8% personal and overdrafts, and 7% business. During the period, we advanced $246 million in loans to members.

- **Total Liabilities** increased by 10.5% to $962 million. Member deposits of $954 million increased by 11.4% and comprised 99% of total liabilities.

- **Total Equity or Member Reserves** increased by 7.3% for the period to $78.5 million and resulted in the achievement of a Capital Adequacy Ratio of 14.7%, well above the regulatory minimum.

## Innovation and Improvement

Positive forward-thinking Innovation and Improvement are considered an integral feature of our strategy and fundamental to remaining relevant to our customers. Police Credit Union remains cognisant of the critical imperative to drive operational efficiencies which result in cost containment and productivity improvement to ensure that we remain competitive and sustainable. We are determined to continue to apply innovation to improve the customer experience and enhance work flows and operational efficiencies within our business models. During the period we have successfully implemented a new and advanced loan-origination system which will enable significant internal efficiencies and faster lending decisions for borrowers. We launched a refreshed website design including new calculators and a more engaging and comprehensive web loan application form. We invested significantly in enhanced cyber-security systems to enable heightened resilience in the protection of all systems and data, including improved fraud detection, blocking and recovery capability. As a result, we continued to improve our efficiency and productivity metrics throughout the 2018 period, in line with our strategic plan framework.

Moving forward and in order to strengthen governance oversight, your Credit Union will introduce an Innovation Index as a high-level measure of our aggregate performance across the following critical areas: core banking system innovation; digital channel innovation; effectiveness of data management; and agile innovation identification and conversion.

we are determined to continue to apply innovation to improve the customer experience

# Corporate Governance

Police Credit Union is an Authorised Deposit-Taking Institution (ADI) and is regulated in the same way as publicly-listed banks. All ADIs must meet the same legally-enforceable standards under the Banking Act within the jurisdiction of the Australian Prudential Regulation Authority (APRA).

APRA's strict rules on safety and capital apply to all ADIs, and this means that our members' deposits are backed by the Australian Government under the Government Guarantee scheme for deposits up to $250,000. While the burden of increased regulation presents considerable financial challenges to the business, we continue to meet the expectations of our regulators.

With the backdrop of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, there is no doubt that heightened regulatory oversight and potential new regulation and/or legislation will result in elevated levels of Director and Executive accountability and responsibility into the future. Notwithstanding our track record of achievement, Police Credit Union remains steadfastly committed to a culture of positive and enhanced governance oversight in order to responsibly and prudently exercise our responsibilities to customer-shareholders and the broader community. Our core values of superior service, honesty, integrity and financial prudence remain enduring characteristics of the Police Credit Union ideology as we implement our long-term strategy.

# Looking forward

We remain on-track to navigate another successful year of performance across all strategic planning measures. Notwithstanding our track record of achievement, our challenge is to ensure that complacency does not stand between us and our future success. The long-term strategic plan for your Credit Union envisages the need for:

- Continued investment and focus in improving the customer experience;
- Agile innovation of customer and efficiency-driven digital platforms;
- Heightened brand leverage and compelling value propositions;
- Ongoing cost management and efficiency-driven initiatives;
- Investment in human capital focussed around building capability and prioritising people and talent;
- Enhanced risk-based resilience including specific initiatives around liquidity and capital management; and
- Elevated community engagement aligned to business relevance.

As outlined throughout the report, we have implemented leading edge and potentially ground-breaking metrics around the measurement of the effectiveness of our organisational culture, not only from a behavioural and conduct perspective but also in linking and incorporating our risk and compliance, resilience, innovation and community frameworks around these indices.

# Thank you

This year's positive results are testament to the work ethic and tireless commitment of our passionate, dedicated and thoughtful team. In this complex operating environment, we have remained resilient, positive and innovative in our thinking, whilst continuing to meet the financial needs of our customer-shareholders through consistent delivery of superior customer experience outcomes.

At Police Credit Union we continue to focus on putting the owners of our business, our Members, first. We will continue to deliver market-leading value propositions through a range of flexible and highly competitive financial products and services while contributing to the ongoing support of our communities.

On behalf of the Board, Management and all Employees we thank our Members, friends and business partners for your continued advocacy, support and trust.

Mr Alex Zimmermann
Chairman

Mr Costa Anastasiou
Chief Executive Officer

# Directors' Report

The Directors of Police Credit Union Limited (the "Credit Union") submit herewith the annual financial report for the financial year ended 30 June 2018. 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 are:

## Alexander Paul Zimmermann FAICD

Grad. Cert. Business Admin.

**Current Occupation:** Chief Inspector of Police
**Director since:** 1999
Chairman 2012–current; Deputy Chairman 2010–2012; Chairman Board Remuneration and Governance Advisory Committee 2012–current; Chairman Board Risk Committee 2011; Chairman Workskil Australia; Deputy Chairman Regional Development Australia – Barossa; Fellow Governor's Leadership Foundation (GLF); Fellow Australian Institute of Company Directors.

## Michael John Fisher FAICD

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

**Current Occupation:** Detective Chief Inspector of Police
**Director since:** 2000
Deputy Chairman 2006–2010 and 2012–current; Chairman Board Audit Committee 2008–2010; Chairman Board Risk Committee 2005–2008 and 2012–current; Member Board Remuneration and Governance Advisory Committee; President Southern Tigers Basketball Association Incorporated; Secretary Police Commissioned Officer's Mess Incorporated; Director Basketball Adelaide Incorporated; Fellow Australian Institute of Company Directors.

## Peter John Alexander APM LLB, MAICD

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

**Current Occupation:** Legal Consultant – Tindall Gask Bentley Solicitors
**Director since:** 2008
Member Board Risk Committee; Member Board Remuneration and Governance Advisory Committee; former President Police Federation of Australia 1996–2007; former President Police Association of SA 1991–2008; Member Australian Institute of Company Directors.

## Andrew James Dunn GAICD

Assoc. Dip. Justice Admin., Assoc. Dip. Social Science

**Current Occupation:** Retired Sergeant of Police
**Director since:** 2013
Member Board Audit Committee; Life Member Police Association of SA, former Secretary Police Association of SA 1998–2013; Graduate Member Australian Institute of Company Directors.

## Kathryn Anne Presser BA (Acc), Grad Dip CSP, FCPA, FGIA, FCIS, FAICD

Bachelor of Arts (Accounting); Grad. Dip. Company Secretarial & Practice; Assoc. Dip. Company Director Practice

**Current Occupation:** Non-Executive Director
**Director Since:** 2015
Chairman Board Audit Committee 2016-current; Member Board Remuneration and Governance Advisory Committee; former CFO Beach Energy Limited 1997-2016, Member Board and Chairman Audit Committee – Funds SA; Advisory Board Member – South Australian Finance Authority; Independent Chairman Risk and Performance Committee – Department of Treasury and Finance; Council and Audit Committee Member – Walford Anglican School for Girls; Member Council and Deputy Chairman Finance and Infrastructure Committee – University of Adelaide; Member Audit, Finance and Investment Committee – Minda Inc; Fellow CPA; Fellow Australian Institute of Company Directors; Fellow Institute of Governance Institute of Australia; Fellow Chartered Institute of Company Secretaries; Fellow Australian Institute of Management and Leadership.

## Peter Damian Schar FAICD, FAIES

Adv. Dip. Public Safety (Emergency Management)

**Current Occupation:** Retired Sergeant of Police
**Director since:** 1998
Member Board Audit Committee; Member Board Remuneration and Governance Advisory Committee; Fellow Australian Institute of Emergency Services; Fellow Australian Institute of Company Directors.

## Thomas Mark Scheffler MAICD

Dip. Local Govt., Cert Police Studies

**Current Occupation:** Retired Detective Senior Sergeant First Class of Police
**Director since:** 2016
Member Board Audit Committee; Member Board Risk Committee; Deputy Mayor and Councillor City of Charles Sturt; Member Charles Sturt Asset Management Committee; former Secretary Police Association of SA; Life Member of Police Association of SA; former Member Police Superannuation Board, former Member Police Dependants Fund; former Member Public Employee Housing and Advisory Committee; Member Australian Institute of Company Directors.

## Paul Schramm APM, FAICD

Cert. Police Studies

**Current Occupation:** Retired Chief Superintendent of Police
**Director since:** 1990
Chairman 2005–2012; Deputy Chairman 1998–2005; Chairman Police Credit Union Financial Planning Ltd 2010–2012; Chairman Board Remuneration and Governance Advisory Committee 2006–2011; Chairman Board Audit Committee 2002–2005; Member Board Risk Committee; Fellow Australian Institute of Company Directors.

## Michael John Edwin Standing MAICD

**Current Occupation:** Retired Sergeant of Police
**Director since:** 2006
Member Board Audit Committee; Member Board Risk Committee; Member Australian Institute of Company Directors; Life Member Police Association of SA.

# Directors' Report (continued)

## Director's Meetings

| Director | Board of Directors | | Board Audit Committee | | Board Risk Committee | | Board Remuneration and Governance Advisory Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| **A Zimmermann** | 12 | 11 | - | - | - | - | 3 | 3 |
| **M Fisher** | 12 | 11 | - | - | 4 | 4 | 3 | 2 |
| **P Alexander** | 12 | 10 | - | - | 4 | 3 | 3 | 3 |
| **A Dunn** | 12 | 12 | 4 | 4 | - | - | - | - |
| **K Presser** | 12 | 11 | 4 | 4 | - | - | 3 | 2 |
| **P Schar** | 12 | 11 | 4 | 3 | - | - | 3 | 2 |
| **T Scheffler** | 12 | 10 | 4 | 3 | 4 | 3 | - | - |
| **P Schramm** | 12 | 10 | - | - | 4 | 4 | - | - |
| **M Standing** | 12 | 11 | 4 | 4 | 4 | 4 | - | - |

## 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 that referred to in the financial statements or notes, 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 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, 26 September 2018

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

## To the Directors of Police Credit Union 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 2018 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

Darren Ball
Partner

Adelaide

26 September 2018

# Our Executive Team

## Costa Anastasiou

Chief Executive Officer
BEc (Acc), FCPA FAICD SA Fin

Costa commenced with Police Credit Union in 2002 and was appointed Chief Executive Officer and Company Secretary in July 2007. He is currently a Director of PCU Services Pty Ltd, Ian Berry Insurance Services Pty Ltd, CU Pageant Company Pty Ltd and SA Police Legacy Inc.

Costa is a qualified accountant, launching his career with a top 4 accounting firm before moving into the finance industry in 1987. He has successfully undertaken several diverse senior management positions throughout his career, including roles in finance, accounting, treasury, sales, marketing and strategy.

As Chief Executive Officer, Costa is responsible for carrying out the management of all the business activities of the Police Credit Union Group, including, leading the organisation to successfully implement its strategic plan; fostering a positive and progressive culture in alignment with organisational core values; the achievement of its major goal to deliver a customer experience second to none; and, ensuring that appropriate governance, control and risk management systems and frameworks are adequate and effective.

## Paul Modra

Executive Manager Member Value
& Distribution and Deputy Chief Executive Officer
MBA

Paul has over 24 years' experience in the credit union industry, the last 17 of which have been spent at Police Credit Union. He is the Chairperson of the Product and Pricing Committee.

Paul has held an Executive Management position at Police Credit Union for 10 years and is responsible for the branch network, Relationship Managers, Contact Centre, Ian Berry Insurance Services, Retail Operations and Product team. Paul is responsible for motivating the retail team to become highly engaged customer experience experts, enhancing access channels, delivering superior service and continuing to increase member value. He also manages the relationship with Police Credit Union's business partners including Allianz, Cuscal and Western Union.

As Chairperson of the Product and Pricing Committee, Paul oversees the implementation of unique and compelling customer value propositions, explores business opportunities not necessarily within Police Credit Union's core business model, and implements distribution and access channel strategies to improve customer value propositions to achieve growth in selected metropolitan and regional markets. He and the committee also have direct management of pricing decisions for products including interest rates, fees and charges.

## James Came

Executive Manager Finance

BComm, BAcc, Higher Diploma in Tax Law, Chartered Accountant

James has been with Police Credit Union since 2005 and fulfilled the role of Manager Finance for a number of years. His core responsibilities involve overseeing the Finance area including Treasury and being a key member of the Pricing Committee.

Having gained exposure to a diverse client base in mining finance, manufacturing and chemicals, James was admitted as a member of the Institute of Chartered Accountants in 1990. Through these varied roles and later within the financial services of Banking and Life Insurance, James has gained extensive experience in accounting, regulation, tax and finance within the financial services environment.

In April 2013, James was appointed Executive Manager Finance and is currently responsible for the financial control of the Credit Union. James is also the Chairperson of the Asset and Liability Committee that manages and monitors Police Credit Union's liquidity, interest rate and capital risks.

## Christie Crouch

Executive Manager Marketing, People & Culture

BPsych, MMKT

Christie commenced with Police Credit Union in 2010, bringing an extensive marketing and management background developed from the real estate industry. Christie has been in an Executive Manager position since August 2011.

Christie's role as Executive Manager Marketing, People & Culture involves managing the promotion of Police Credit Union and its associated companies' brands, as well as being responsible for all corporate communication, and overseeing staff training and human resources.

Christie is Chairperson of Police Credit Union's 'Community, Environment and Employee Engagement and Diversity Committee' (CEEED), which introduces a number of initiatives to build and enhance an engaged, inclusive and proactive culture to deliver a customer experience that is second to none. The committee also aims to demonstrate attributes of community focus, social responsibility and mutual interest to ensure Police Credit Union supports, promotes and invests in the use of green and sustainable energy.

# Our Executive Team (continued)

## James O'Loughlin

Executive Manager Lending & Credit Management

BEc FCA, Grad Dip AppFin, MBA

James has over 29 years combined experience in accounting, banking and finance. James is a chartered accountant who commenced his career with a Big 4 accounting firm before moving to the banking and finance industry. James has undertaken a number of roles with both international and Big 4 banks ranging from private banking and business development to senior management positions.

James commenced with Police Credit Union in 2012, bringing an extensive knowledge of credit risk and processes developed from numerous years experience in both the accounting and finance industries. In his role as Executive Manager, Lending and Credit Management, James has the responsibility in leading the credit culture of the Credit Union and successfully developing, implementing and monitoring credit policy. He is also the Chairperson of the Credit Risk Committee.

## Ben Stephenson

Executive Manager Technology & Data

MInfoSysSec, MACS

Ben has over 16 years experience in IT within the mutual banking sector. He has a solid technical background in IT having worked in positions from frontline support through to senior management and has a strong background in business processes as well as IT technical skills. Prior to this work, Ben also worked as a chartered accountant for over 5 years encompassing roles from taxation accounting to audit, giving him a good grounding in accounting principles and practices.

Commencing with Police Credit Union in 2014, Ben heads the IT team in the role of Executive Manager, Technology and Data and is responsible for the security, availability and integrity of Police Credit Union's IT systems. He also sits on the Compliance and Operational Risk Committee and is the Chairperson of the Innovation Committee.

## Sean Willetts

Executive Manager Risk & Compliance

MIns & RiskMgt, ANZIIF(Fellow)CIP, BBus(Eco & Fin), GCertCommLaw

Sean commenced with Police Credit Union in 2015, when he was appointed to the Executive Manager Risk and Compliance role. With over 21 years of combined experience in financial services, Sean brings extensive experience in the management of risk and compliance, ensuring the business is appropriately addressing its risks and meeting all legal and regulatory requirements.

Sean is the Chief Risk Officer, Chairperson of the Compliance and Operational Risk Committee and a management representative of the Board Risk Committee.

Sean's role incorporates the management of Police Credit Union's operational, regulatory and compliance risks, including Business Continuity Management and the management of corporate insurances. His role on the Executive Management Team facilitates the integration of compliance and risk management into the Credit Union's strategic direction and business operations.

# Corporate Governance Statement

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).

Police Credit Union's Board is responsible for the strategic guidance and oversight of the Credit Union Group of Companies and achieves this through maintaining strong corporate governance principles that are underpinned by ethics, values and behaviours.

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 2018

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

To fulfil this role, the Board develops and approves strategic direction and financial objectives and oversees Management's progress against these plans and objectives.

To assist in this process the Board has adopted an 'enterprise governance' approach that proactively addresses the governance of information technology alongside the traditional business governance.

As a result of this approach the Board ensures compliance with legal, regulatory and environmental obligations, managing information technology risks and opportunities, together with established Member/customer product and service performance standards.

## Board Composition, Selection and Appointment

All Board members are independent non-executive Directors. The Board is made up of a majority of elected Directors, who are elected on rotation every three years. As part of its Renewal Policy in ensuring an optimum diversity of skilled Directors, from time to time, the Board may determine to appoint up to two Appointed Directors on a term specified, to enhance its overall composition. The Board requires Directors to have experience which is complementary to the Credit Union's activities and strategy, or have appropriate professional qualifications, and who are able to bring value 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 our success. The Board reviews its mix of skills, knowledge and experience regularly, using a skills matrix. These reviews include consideration of future succession plans for Board members as well as 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. The Board has concluded that no Director has served on the board for such a period that their independence has been compromised.

The Board is committed to an uncompromising culture of dignity, courtesy, respect, tolerance and diversity and expects all employees to be treated properly and professionally in every situation. 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 2017-18.

## Continuing Education

In accordance with the Responsible Learning Policy, Police Credit Union Directors actively participate in a professional education program that includes minimum levels of required structured and unstructured learning, a formal induction program and the provision of training by external experts in various disciplines.

## Performance Evaluations

In accordance with Board Policy, Directors undertake an extensive evaluation of Performances and Practices covering areas such as accountability to shareholders, 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 undertakes external and independent reviews of its governance arrangements, including comparison to standards of accepted good practice. During the year Police Credit Union engaged the AICD to undertake a governance review using its Governance Analysis Tool™.

In addition, the Board Remuneration and Governance Advisory Committee oversee the annual audit of Director knowledge, skills and experience. The most recent results of this assessment indicate that the Board's aggregate knowledge, skills and experience has continuously improved and reflects overall performance in the upper quartile of assessment.

Performance evaluations incorporating the Board, Board Risk Committee and Board Audit Committee are conducted annually with results assessed by the Board Remuneration and Governance Advisory Committee and reported to the full Board.

## 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's 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 judgment 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.

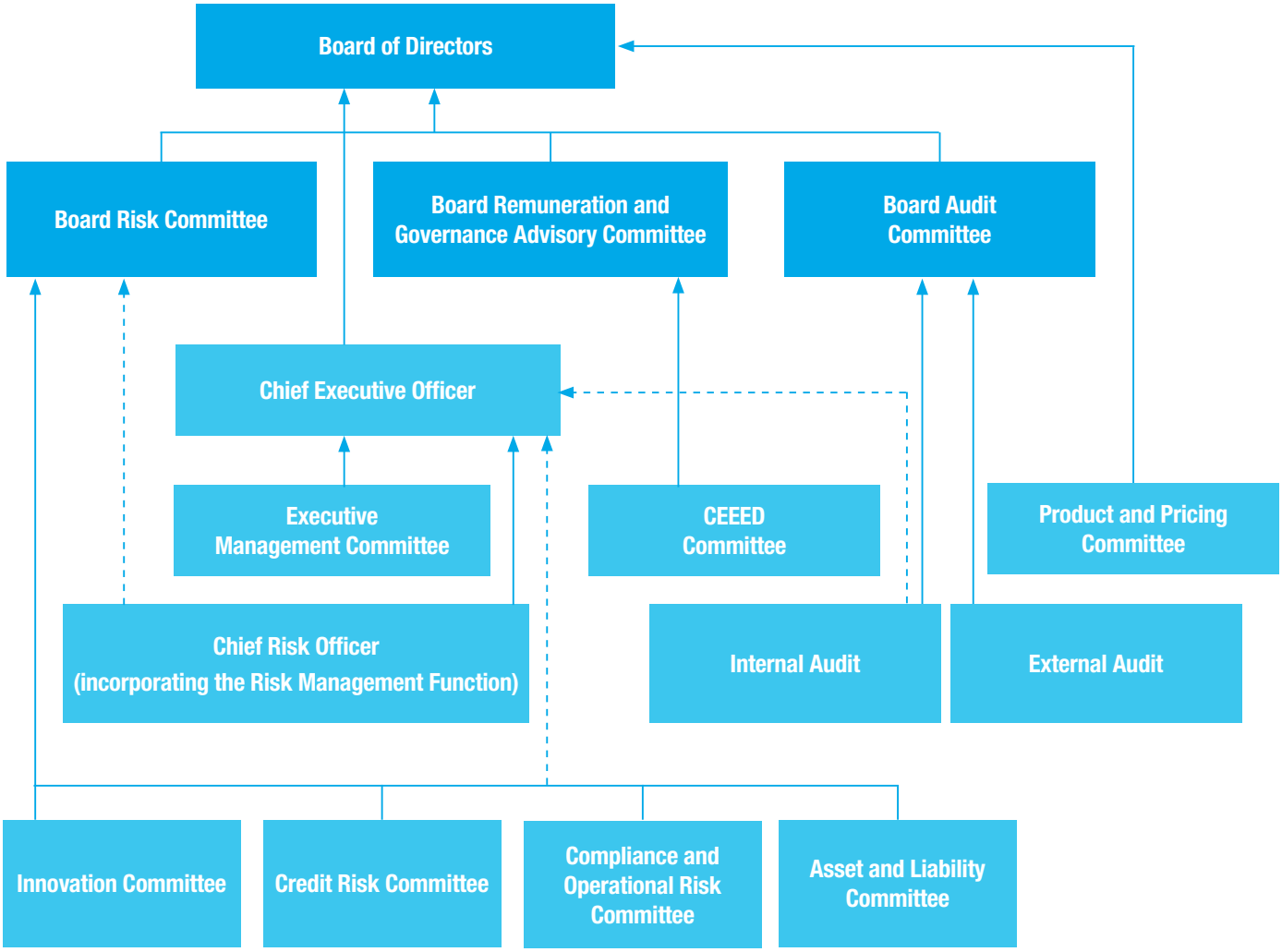
In addition, this process is supported by the Nominations Panel which meets at least annually and assesses whether candidates nominating for Directorship possess the appropriate competencies commensurate with the responsibilities of a Director by reference to the Board approved Model Criteria and the Fit and Proper Policy. The Nominations Panel comprises four members of which two are Independent Directors of the Credit Union and one of whom is the Chair of the Board, unless the Chair is unable or unwilling to be a member of the Nominations Panel; and at least two other persons who are independent of the Credit Union and who possess, in the opinion of the Board, an overall suitable mix of character, skills, knowledge and experience or who meet any other criteria determined by the Board from time to time. No Director may be a member of the Nominations Panel during any period in which it is dealing with an election in which the Director is a candidate.

## 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 control and business risk management. All Committees have written mandates and operating procedures. The role 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's Consolidated Prudential Standard CPS 510 (Governance).

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 the 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's Consolidated Prudential Standard CPS 510 (Governance).

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 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's 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, including 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 organisation wide risk culture which encourages taking appropriate and relevant risks that are adequately rewarded and 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;

- 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.

To assist in discharging this responsibility, the Board has instigated a control framework through the formation of risk management committees.

## 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 operational risks, including 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, 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 & 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. 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.

## 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.

## Strategic 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 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 core values are 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 and Employees, so that there is a common understanding of the values and expected standards of behaviour, including the following:

1. At all times act with honesty, integrity and impartiality and do not knowingly mislead anyone, including colleagues, clients, members and regulators.
2. Comply with the letter and spirit of all Commonwealth, State and Territory laws, and relevant industry Codes.
3. Report all corrupt, illegal and unethical conduct to the appropriate person within the organisation.
4. Protect the confidentiality of information made available to you, subject to any legal obligations such as disclosure.
5. Be alert to conflicts of interest and take appropriate steps to declare and deal with them.
6. Provide a high standard of service to all you deal with in performing your duties and obligations.
7. Maintain a level of fitness and propriety and develop the necessary level of professional skills and current knowledge to excel in your duties.
8. Do not harass or abuse a member of the public or Employees either inside or outside of the workplace.
9. Do not take, or seek to take, improper advantage of your position in order to obtain a benefit for yourself or another person.
10. 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, environmental 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.

## 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 forwarded to all eligible shareholders on an annual basis.

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 2018

# Statement of Comprehensive Income

## for the financial year ended 30 June 2018

| | | Consolidated | | Credit Union | |
|---|---|---|---|---|---|
| | Note | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| Interest income | | 41,041 | 38,317 | 41,041 | 38,317 |
| Interest expense | | (19,672) | (18,658) | (19,672) | (18,658) |
| Net interest income | 5 | 21,369 | 19,659 | 21,369 | 19,659 |
| Fee and commission income | 6 | 5,400 | 6,455 | 5,400 | 5,873 |
| Other operating income | 7 | 600 | 547 | 600 | 1,164 |
| Gain on disposal of subsidiary | 21(d) | - | 1,695 | - | 1,695 |
| Impairment losses on loans and advances | 15 | (172) | (170) | (172) | (170) |
| Operating expenses | 8 | (20,855) | (21,089) | (20,855) | (21,059) |
| Profit before tax | | 6,342 | 7,097 | 6,342 | 7,162 |
| Income tax expense | 10 (a) | (1,872) | (2,033) | (1,872) | (2,005) |
| **Profit for the year** | | **4,470** | **5,064** | **4,470** | **5,157** |
| | | | | | |
| Profit for the year from: | | | | | |
| - discontinued operations | | - | 1,288 | - | 1,228 |
| - continuing operations | | 4,470 | 3,776 | 4,470 | 3,929 |
| | | | | | |
| Other comprehensive income, net of income tax | | | | | |
| *Item that will not be reclassified subsequently to profit and loss (net of related income tax):* | | | | | |
| Gain on valuation of freehold land and buildings | 20 | 743 | - | 743 | - |
| *Item that may be reclassified subsequently to profit and loss:* | | | | | |
| Effective portion of change in fair value of cash flow hedges | 20 | 145 | 219 | 145 | 219 |
| Change in fair value (loss)/gain of available-for-sale financial assets | 20 | (45) | (19) | (45) | (19) |
| *Reclassification adjustment:* | | | | | |
| Gain on sale of subsidiary | 20 | - | (477) | - | (477) |
| **Total comprehensive income for the year** | | **5,313** | **4,787** | **5,313** | **4,880** |
| Profit attributable to: | | | | | |
| Members of the Credit Union | | 4,470 | 5,040 | | |
| Non-controlling interests | | - | 24 | | |
| | | 4,470 | 5,064 | | |
| Total comprehensive income attributable to: | | | | | |
| Members of the Credit Union | | 5,313 | 4,763 | | |
| Non-controlling interests | | - | 24 | | |
| | | 5,313 | 4,787 | | |

*Notes to the Financial Statements are included on pages 28—51*

# Statement of Financial Position
## as at 30 June 2018

| | Note | Consolidated 2018 $'000 | Consolidated 2017 $'000 | Credit Union 2018 $'000 | Credit Union 2017 $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and bank balances | 11 | 41,780 | 31,464 | 41,780 | 31,464 |
| Receivables other | 12 | 1,128 | 1,068 | 1,128 | 1,068 |
| Current tax asset | 10 (b) | - | 600 | - | 600 |
| Loans and advances: to other ADIs | 13 | 124,409 | 100,026 | 124,409 | 100,026 |
| Loans and advances: to Members | 14 | 858,442 | 795,919 | 858,442 | 795,919 |
| Investment securities | 23 (h) | 1,897 | 1,961 | 1,897 | 1,961 |
| Investment properties | 16 | 727 | 1,091 | 727 | 1,091 |
| Property, plant and equipment | 17 | 10,806 | 9,997 | 10,806 | 9,997 |
| Intangible assets | | 698 | 385 | 698 | 385 |
| Derivative assets | 23 (d) | 6 | - | 6 | - |
| Deferred tax assets | 10 (c) | 841 | 1,125 | 841 | 1,125 |
| **Total assets** | | **1,040,734** | **943,636** | **1,040,734** | **943,636** |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits | 18 | 953,661 | 856,091 | 953,661 | 856,091 |
| Payables due to other financial institutions | | 3,765 | 8,630 | 3,765 | 8,630 |
| Payables other | 19 | 2,327 | 3,406 | 2,327 | 3,406 |
| Derivative liabilities | 23 (d) | - | 230 | - | 230 |
| Current tax liabilities | 10 (b) | 246 | - | 246 | - |
| Provisions | 19 | 2,266 | 2,123 | 2,266 | 2,123 |
| Total liabilities | | 962,265 | 870,480 | 962,265 | 870,480 |
| **Net assets** | | **78,469** | **73,156** | **78,469** | **73,156** |
| | | | | | |
| **Equity** | | | | | |
| Reserves | 20 | 19,105 | 18,117 | 19,105 | 18,117 |
| Retained earnings | | 59,364 | 55,039 | 59,364 | 55,039 |
| Equity attributable to Members of the Credit Union | | 78,469 | 73,156 | 78,469 | 73,156 |
| Non-controlling interests | | - | - | - | - |
| **Total equity** | | **78,469** | **73,156** | **78,469** | **73,156** |

*Notes to the Financial Statements are included on pages 28—51*

# Statement of Changes in Equity

## for the financial year ended 30 June 2018

### Consolidated

| | Reserves | Retained Earnings | Attributable to Members of PCU | Non-Controlling Interest | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 July 2016 | 18,081 | 50,317 | 68,398 | 81 | 68,479 |
| Profit for the year | - | 5,040 | 5,040 | 24 | 5,064 |
| Other comprehensive income for the year | (251) | (26) | (277) | - | (277) |
| Total comprehensive income for the year | (251) | 5,014 | 4,763 | 24 | 4,787 |
| Transfers from retained earnings | 287 | (287) | - | - | - |
| Dividend paid on the sale of subsidiary | - | - | - | (102) | (102) |
| Net assets transferred on disposal of subsidiary | - | (5) | (5) | (3) | (8) |
| Balance at 30 June 2017 | 18,117 | 55,039 | 73,156 | - | 73,156 |
| Profit for the year | - | 4,470 | 4,470 | - | 4,470 |
| Other comprehensive income for the year | 843 | - | 843 | - | 843 |
| Total comprehensive income for the year | 843 | 4,470 | 5,313 | - | 5,313 |
| Transfers from retained earnings | 145 | (145) | - | - | - |
| **Balance at 30 June 2018** | **19,105** | **59,364** | **78,469** | **-** | **78,469** |

### Credit Union

| | Reserves | Retained Earnings | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Balance at 1 July 2016 | 18,107 | 50,169 | 68,276 |
| Profit for the year | - | 5,157 | 5,157 |
| Other comprehensive income for the year | (277) | - | (277) |
| Total comprehensive income for the year | (277) | 5,157 | 4,880 |
| Transfers from retained earnings | 287 | (287) | - |
| Balance at 30 June 2017 | 18,117 | 55,039 | 73,156 |
| Profit for the year | - | 4,470 | 4,470 |
| Other comprehensive income for the year | 843 | - | 843 |
| Total comprehensive income for the year | 843 | 4,470 | 5,313 |
| Transfers from retained earnings | 145 | (145) | - |
| **Balance at 30 June 2018** | **19,105** | **59,364** | **78,469** |

*Notes to the Financial Statements are included on pages 28—51*

# Statement of Cash Flows

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Profit before tax** | 6,342 | 7,097 | 6,342 | 7,162 |
| **Adjustment for non-cash items:** | | | | |
| Allowance for credit impairment | 19 | 65 | 19 | 65 |
| Depreciation and amortisation charges | 877 | 841 | 877 | 831 |
| (Gain)/loss on sale of plant and equipment | (62) | (25) | (62) | (25) |
| Loss on sale of investment property | 14 | 5 | 14 | 5 |
| Re-classified from general reserve | - | (631) | - | (657) |
| Fair value gain on investment properties | (17) | - | (17) | - |
| Amortisation of loan fee income | 86 | 196 | 86 | 196 |
| **Changes in operating assets and liabilities:** | | | | |
| Loans and advances: to Members | (62,628) | (84,006) | (62,628) | (84,006) |
| Loans and advances: other ADIs | (26,471) | (2,899) | (26,471) | (2,899) |
| Deposits | 97,570 | 74,595 | 97,570 | 74,595 |
| Payables and other liabilities | (1,103) | 395 | (1,103) | 400 |
| Provisions | 144 | 100 | 144 | 100 |
| Receivables and other assets | 300 | 407 | 300 | 341 |
| Balances between controlled entities | - | - | - | (147) |
| Income tax paid | (1,027) | (2,412) | (1,027) | (2,370) |
| **Net cash from/(used in) operating activities** | **14,044** | **(6,272)** | **14,044** | **(6,409)** |
| | | | | |
| Purchase of property, plant and equipment and intangibles | (1,031) | (1,515) | (1,031) | (1,514) |
| Proceeds from sale of property, plant and equipment | 80 | 40 | 80 | 40 |
| Share of profits of subsidiary | - | (34) | - | - |
| Proceeds from sale of investment property | - | 373 | - | 373 |
| **Net cash used in investing activities** | **(951)** | **(1,136)** | **(951)** | **(1,101)** |
| | | | | |
| Payables due to other ADIs | (4,865) | 5,365 | (4,865) | 5,365 |
| Dividends paid on the sale of subsidiary | - | (102) | - | - |
| **Net cash from financing activities** | **(4,865)** | **5,263** | **(4,865)** | **5,365** |
| | | | | |
| Net (decrease)/increase in cash held | 8,228 | (2,145) | 8,228 | (2,145) |
| Cash at the beginning of the financial year | 62,454 | 64,559 | 62,454 | 64,599 |
| **Cash and cash equivalents at the end of the year** | **70,682** | **62,454** | **70,682** | **62,454** |
| | | | | |
| **Cash and cash equivalents comprise:** | | | | |
| Cash and balances with banks | 41,780 | 31,464 | 41,780 | 31,464 |
| Receivables from financial institutions | 124,409 | 100,026 | 124,409 | 100,026 |
| Less: amounts with maturity greater than three months | (95,507) | (69,036) | (95,507) | (69,036) |
| | **70,682** | **62,454** | **70,682** | **62,454** |

*Notes to the Financial Statements are included on pages 28—51*

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

## 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 for profit entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS'). The financial statements were authorised for issue by the Directors on 26 September 2018.

### Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of Investment Properties, Freehold Land & Buildings and Investment Securities. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted.

ASIC Class Order 10/654 commencing 7 March 2017 has been adopted allowing the financial statements of Police Credit Union Ltd 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 (the 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 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.

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) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

### c) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Initially, investments are measured at fair value, plus transaction costs. Subsequent to initial recognition, financial assets, other than investments in subsidiaries are classified into the following specified categories: 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

#### Held-to-maturity investments

These consist of Negotiable Certificates of Deposit and Debt Securities issued by ADIs that are recorded at amortised cost using the effective interest method less impairment. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

#### Available-for-sale financial assets

Certain investments held by the Group are classified as being available-for-sale and are stated at fair value less impairment. Fair value is determined in the manner described in Note 23g. Gains and losses arising from changes in fair value are recognised directly in the investment revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the revaluation reserve is included in profit or loss for the period. Investments in unlisted securities are brought to account at fair value. Unlisted investments consist mainly of shares held in Cuscal Ltd, which are not quoted on an active market, but there is a market in the shares and prices on trades are disclosed to members of Cuscal.

#### Loans, advances and other receivables

Loans, advances and other receivables are recorded at amortised cost less impairment. Fees arising on the origination of loans are required to be deferred and treated as income over the estimated term of the loan portfolio using a method that approximates the effective interest method.

#### Investments in subsidiaries

Investments in subsidiaries continue to be carried at their cost after initial recognition.

### d) Financial liabilities

Financial liabilities are recorded initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated 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 2018

### 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) Standards and Interpretations not yet effective

At the date of issue of this report the Standards and Interpretations, relevant to the Group listed below, were in issue but not yet effective.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 9 Financial Instruments and all the relevant amending standards | 1 January 2018 | 30 June 2019 |
| AASB 15 Revenue from Contracts with Customers | 1 January 2018 | 30 June 2019 |
| AASB 16 Leases | 1 January 2019 | 30 June 2020 |

The Group has considered all the Accounting Standards and Interpretations issued up to the date of approval of the financial report. A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end. In the table below those Standards and Interpretations relevant to the Group have been noted and their impact is disclosed below:

| Standard | Impact on Group |
|---|---|
| AASB 9 Financial Instruments and all the relevant amending standards | The financial instruments that Police Credit Union currently holds and its measurement on initial recognition will not alter. The Group will however alter its methodology for measuring impairment loss allowance from an incurred loss basis to an expected loss basis. On transition to recognising impairment allowance on an expected loss basis, such allowances will be greater than the current impairment allowance on an incurred basis. The probability of default and loss experience has been determined based on a review of losses over the past ten years. The additional allowance, that will be deducted from Loans and Advances, will be taken from Retained Earnings. After allowing for the related deferred tax asset this will result in lower net assets. The General Reserve for Credit Losses is anticipated to reduce with the reduction taken to Retained Earnings. There is currently no expectation of a material change to the level of impairment allowances after implementation of AASB 9. The expected credit loss model developed requires further assessment and refinement that is underway. |
| AASB 15 Revenue from Contracts with Customers | This Standard provides a single, principles based five-step model to be applied to all contracts with customers. The main revenue of the Group is derived from Financial Instruments and these resulting revenues are not covered by this new Standard. The other revenue items such as Commission and Fees are recognised in accordance with methodologies consistent with the new Standard and the current assessment that is there is unlikely to be a change to revenue recognition. |
| AASB 16 Leases | This Standard introduces an accounting model for all leases with a term of more than 12 months, unless the underlying asset is of low value. Assets and liabilities arising from a lease are required to be recognised on the balance sheet.<br><br>A lessee is required to recognise at present value, a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligations to make lease payments. The Basel Committee on Banking Supervision has clarified that the right-of-use asset should be included in the risk based capital denominator for Capital Adequacy, where the underlying asset is a tangible asset and risk weighted 100%, consistent with tangible assets held by the Credit Union. |

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

### g) Presentation of non-material items

As a result of simplifications of the financial statements for the users, a number of non-material note disclosures have been combined, but the numbers have not been amended.

## 4. Critical accounting judgments 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, Investment Properties 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, 17 and 23 (g) and (h).

### 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

**Performing loans**

The Group assesses its loan portfolios for impairment at the end of the reporting period. In determining whether an impairment loss should be recognised in the profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. The impairment for performing loans is calculated on a portfolio basis, where there are early arrears and other early indicators of potential default.

**Non-performing loans**

Loans are individually impaired if amounts are due and unpaid for three or more months. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Further details are disclosed in Note 15.

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **5. Net interest income** | | | | |
| Interest income | | | | |
| Loans and advances: to other ADIs | 3,376 | 3,034 | 3,376 | 3,034 |
| Loans and advances: to Members | 37,665 | 35,283 | 37,665 | 35,283 |
| | **41,041** | **38,317** | **41,041** | **38,317** |
| Interest expense | | | | |
| Deposits | 14,237 | 14,036 | 14,237 | 14,036 |
| Payables due to other ADIs | 5,435 | 4,622 | 5,435 | 4,622 |
| | 19,672 | 18,658 | 19,672 | 18,658 |
| **Net Interest Income** | **21,369** | **19,659** | **21,369** | **19,659** |

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 to 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 | 2,213 | 1,990 | 2,213 | 1,990 |
| Insurance commissions | 1,892 | 2,587 | 1,892 | 2,587 |
| Other commissions | 1,295 | 1,878 | 1,295 | 1,296 |
| | **5,400** | **6,455** | **5,400** | **5,873** |

Commission and fee income is recognised on an accrual basis once the transaction or event that gives rise to the income has occurred.

| | | | | |
|---|---|---|---|---|
| **7. Other operating income** | | | | |
| Dividend income | 95 | 161 | 95 | 314 |
| Property rental income | 89 | 90 | 89 | 90 |
| Recovery of costs from related entities | - | - | - | 464 |
| Fair value gain – investment properties | 17 | - | 17 | - |
| Cost recoveries, contributions and loan/guarantee fees | 399 | 296 | 399 | 296 |
| | **600** | **547** | **600** | **1,164** |

Dividend income is recognised on the date of entitlement to the dividend.

Revenue on the sale of developed properties is recognised when the significant risks and rewards of ownership are transferred to the buyer. Rental income is recognised on a straight-line basis over the lease period.

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| **8. Operating expenses** | | | | |
| Affiliation fees | 191 | 170 | 191 | 170 |
| Board committee and meetings | 683 | 669 | 683 | 669 |
| Commissions paid | 289 | 282 | 289 | 282 |
| Data processing & telecommunications | 1,315 | 1,256 | 1,315 | 1,249 |
| Debt collection costs | 29 | 31 | 29 | 31 |
| Depreciation & amortisation | 877 | 841 | 877 | 831 |
| Insurance | 206 | 239 | 206 | 234 |
| Legal and professional fees | 339 | 455 | 339 | 455 |
| (Gain)/Loss on disposal of property, plant and equipment | (62) | (25) | (62) | (25) |
| Marketing, advertising and printing | 1,933 | 1,975 | 1,933 | 1,975 |
| Office administration | 479 | 506 | 479 | 498 |
| Office occupancy | 615 | 614 | 615 | 614 |
| Operating lease rental expense | 1,015 | 978 | 1,015 | 978 |
| Salaries and on-costs | 10,290 | 10,339 | 10,290 | 10,339 |
| Training, travel and accommodation | 533 | 620 | 533 | 620 |
| Transaction costs | 2,123 | 2,139 | 2,123 | 2,139 |
| | **20,855** | **21,089** | **20,855** | **21,059** |

The amount recognised as an expense for defined contribution plans included within salaries and on-costs and Board committee and meetings is $1,058 thousand (2017: $1,157 thousand).

| **9. Remuneration of auditors** | $ | $ | $ | $ |
|---|---|---|---|---|
| **Auditor of the Group:** | | | | |
| Auditing of the financial statements | 85,075 | 97,920 | 85,075 | 97,920 |
| Other regulatory audit services | 29,725 | 36,130 | 29,725 | 36,130 |
| Taxation services | 40,995 | 20,415 | 40,995 | 20,415 |
| | **155,795** | **154,465** | **155,795** | **154,465** |

The auditor of the Group for 2018 is KPMG (2017: Deloitte Touche Tohmatsu).

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **10. Income tax** | | | | |
| a) Income tax recognised in profit | | | | |
| Current tax expense | | | | |
| - in respect of the current year | 1,892 | 2,118 | 1,892 | 2,088 |
| - in relation to the current tax of prior year | (18) | (6) | (18) | (4) |
| - reclassified from reserves | - | 180 | - | 180 |
| Deferred tax expense | | | | |
| - in respect of the current year | (7) | (259) | (7) | (259) |
| - in relation to the deferred tax of prior year | 5 | - | 5 | - |
| **Total tax expense** | **1,872** | **2,033** | **1,872** | **2,005** |
| 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 | 6,342 | 7,097 | 6,342 | 7,162 |
| Income tax expense calculated at 30% | 1,903 | 2,129 | 1,903 | 2,149 |
| Permanent differences: | | | | |
| Non-deductible expenses | 10 | 10 | 10 | 6 |
| Deferred tax benefit recognised | - | (26) | - | (26) |
| Capital allowances | - | (26) | - | (26) |
| Franked dividend received | (28) | (48) | (28) | (94) |
| | 1,885 | 2,039 | 1,885 | 2,009 |
| Over provision of tax in previous years | (13) | (6) | (13) | (4) |
| | **1,872** | **2,033** | **1,872** | **2,005** |
| b) Current tax assets/(liabilities) | | | | |
| Income tax payable | (246) | - | (246) | - |
| Income tax refundable | - | 600 | - | 600 |
| c) Deferred tax assets | | | | |
| Taxable and deductible temporary differences arise from the following: | | | | |
| Depreciation on property, plant and equipment | 227 | 234 | 227 | 234 |
| Derivative liabilities | (2) | 60 | (2) | 60 |
| Employee entitlements | 587 | 545 | 587 | 545 |
| Investment properties - allowances | (32) | (42) | (32) | (42) |
| Gains on available for sale investments | (228) | (247) | (228) | (247) |
| Impairment allowances on loans | 239 | 173 | 239 | 173 |
| Land and buildings | (259) | - | (259) | - |
| Payables | 190 | 251 | 190 | 251 |
| Provisions for decommissioning | 93 | 92 | 93 | 92 |
| Unearned fees | 26 | 59 | 26 | 59 |
| | **841** | **1,125** | **841** | **1,125** |

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **d) Movement in deferred tax asset** | | | | |
| Deferred tax credited/(charged) to profit or loss | 7 | 233 | 7 | 233 |
| Deferred tax recognised | (53) | 26 | (53) | 26 |
| Prior year building adjustment | (6) | - | (6) | - |
| Deferred tax recognised in other comprehensive income | (232) | (86) | (232) | (86) |
| Increase/(decrease) in deferred tax asset | (284) | 173 | (284) | 173 |
| **e) Franking account** | | | | |
| Adjusted Franking account balance as at the end of financial year | 30,345 | 28,150 | 30,345 | 28,150 |

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 Company and all its wholly-owned entities are part of a tax-consolidated group under Australian Taxation Law. Police 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.

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **11. Cash and bank balances** | | | | |
| Notes and coins | 2,082 | 2,046 | 2,082 | 2,046 |
| Bank balances | 8,742 | 1,476 | 8,742 | 1,476 |
| Bank balances – at call | 30,956 | 27,942 | 30,956 | 27,942 |
| | **41,780** | **31,464** | **41,780** | **31,464** |

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;
- Payment for and sale proceeds of investment securities; and
- Loan advances and repayments.

| | | | | |
|---|---|---|---|---|
| **12. Receivables other** | | | | |
| Proceeds from sale of investment property | 366 | - | 366 | - |
| Trade receivables | 132 | 42 | 132 | 42 |
| Prepayments | 59 | 73 | 59 | 73 |
| Accrued income | 224 | 199 | 224 | 199 |
| Settlement and clearing accounts | 347 | 754 | 347 | 754 |
| | **1,128** | **1,068** | **1,128** | **1,068** |
| **13. Loans and advances: to other ADIs** | | | | |
| Held at amortised cost: | | | | |
| Cuscal Limited | 28,902 | 19,976 | 28,902 | 19,976 |
| Other Banks | 95,507 | 80,050 | 95,507 | 80,050 |
| | **124,409** | **100,026** | **124,409** | **100,026** |
| Cuscal is an Authorised Deposit Taking Institution (“ADI”) | | | | |
| Analysis of receivables due from other ADIs: | | | | |
| By maturity: | | | | |
| 0 – 1 month | 4,993 | 15,985 | 4,993 | 15,985 |
| 1 – 3 months | 23,909 | 15,005 | 23,909 | 15,005 |
| 3 – 12 months | 10,067 | 6,024 | 10,067 | 6,024 |
| 1 – 5 years | 85,440 | 63,012 | 85,440 | 63,012 |
| | **124,409** | **100,026** | **124,409** | **100,026** |

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **14. Loans and advances: to Members** | | | | |
| Held at amortised cost: | | | | |
| Loans outstanding | 859,325 | 796,697 | 859,325 | 796,697 |
| Unearned fee income | (475) | (389) | (475) | (389) |
| Allowance for impairment (Note 15) | (408) | (389) | (408) | (389) |
| | **858,442** | **795,919** | **858,442** | **795,919** |
| Analysis of loans and advances (gross) | | | | |
| By purpose: | | | | |
| Residential loans | 730,218 | 687,420 | 730,218 | 687,420 |
| Personal loans | 62,442 | 58,890 | 62,442 | 58,890 |
| Credit card advances | 5,281 | 5,280 | 5,281 | 5,280 |
| Commercial loans | 61,384 | 45,107 | 61,384 | 45,107 |
| | **859,325** | **796,697** | **859,325** | **796,697** |
| By security: | | | | |
| Secured by mortgage | 788,371 | 731,986 | 788,371 | 731,986 |
| Secured other | 62,634 | 58,347 | 62,634 | 58,347 |
| Unsecured | 8,320 | 6,364 | 8,320 | 6,364 |
| | **859,325** | **796,697** | **859,325** | **796,697** |
| By maturity: | | | | |
| Overdraft | 22,049 | 22,564 | 22,049 | 22,564 |
| 0 – 3 months | 11,940 | 13,201 | 11,940 | 13,201 |
| 3 – 12 months | 37,643 | 29,231 | 37,643 | 29,231 |
| 1 – 5 years | 115,715 | 105,179 | 115,715 | 105,179 |
| Over 5 years | 671,978 | 626,522 | 671,978 | 626,522 |
| | **859,325** | **796,697** | **859,325** | **796,697** |

**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 $165.0 million (2017: $163.7 million) are covered by lender's mortgage insurance that reduces the Group's exposure to credit risk.

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 | 13,796 | 5,781 | 13,796 | 5,781 |
| Undrawn credit limits and re-draw | 74,818 | 72,161 | 74,818 | 72,161 |
| | **88,614** | **77,942** | **88,614** | **77,942** |

Financial Guarantees have been issued on behalf of Members totalling $609 thousand (2017: $115 thousand). These Guarantees require the Credit Union to make payment to the holder thereof, should the Member fail to make payment to the holder. Concentration of loans and advances to groups of members having similar characteristics are:

| | | | | |
|---|---|---|---|---|
| Police | 147,713 | 154,706 | 147,713 | 154,706 |
| Nurses | 22,210 | 22,519 | 22,210 | 22,519 |
| Others | 689,402 | 619,472 | 689,402 | 619,472 |
| | **859,325** | **796,697** | **859,325** | **796,697** |

Loans secured by mortgages within South Australia comprise 86.7% of outstanding balances.

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **15. Allowance for impairment: loans and receivables** | | | | |
| Balance at beginning of year | 389 | 324 | 389 | 324 |
| Charged to the Income Statement | 19 | 65 | 19 | 65 |
| **Balance at the end of the year** | **408** | **389** | **408** | **389** |
| | | | | |
| Impairment loss recognised in the profit or loss: | | | | |
| Recoveries on loans previously written off | 41 | 45 | 41 | 45 |
| Provisions for loan impairment – net movement | (19) | (65) | (19) | (65) |
| Loans written off during the year as uncollectible | (194) | (150) | (194) | (150) |
| **Total impairment charge to profit and loss** | **(172)** | **(170)** | **(172)** | **(170)** |
| | | | | |
| Past due loans and advances over 90 days: | | | | |
| Residential Loans (*) | 124 | 1,178 | 124 | 1,178 |
| Residential Loans – impaired | 68 | 71 | 68 | 71 |
| Personal Loans | 18 | - | 18 | - |
| Personal Loans – impaired | 55 | 22 | 55 | 22 |
| Commercial Loans – impaired (*) | 374 | 384 | 374 | 384 |
| Specific impairment allowances | (168) | (101) | (168) | (101) |
| Collective impairment allowances | (20) | (21) | (20) | (21) |
| **Total carrying amount** | **451** | **1,533** | **451** | **1,533** |
| | | | | |
| Past due loans and advances less 90 but over 30 days: | | | | |
| Residential Loans (*) | 1,623 | 1,633 | 1,623 | 1,633 |
| Personal Loans | 96 | 82 | 96 | 82 |
| Personal Loans – impaired | 25 | 100 | 25 | 100 |
| Specific impairment allowances | (21) | (92) | (21) | (92) |
| Collective impairment allowances | (47) | (36) | (47) | (36) |
| **Total carrying amount** | **1,676** | **1,687** | **1,676** | **1,687** |
| | | | | |
| Past due loans and advances less than 30 days: | | | | |
| Less than 10 days | 7,044 | 3,682 | 7,044 | 3,682 |
| 10 – 20 days | 1,106 | 2,564 | 1,106 | 2,564 |
| 20 – 30 days | 2,404 | 1,549 | 2,404 | 1,549 |
| Residential loans – impaired | 431 | 433 | 431 | 433 |
| Personal loans – impaired (**) | 66 | - | 66 | - |
| Specific impairment allowances (**) | (144) | (124) | (144) | (124) |
| Collective impairment allowances | (8) | (15) | (8) | (15) |
| **Total carrying amount** | **10,899** | **8,089** | **10,899** | **8,089** |

(*) – these loans are secured by mortgage over real property and the Group does not expect to realise any losses once these balances are recovered.
(**) – personal loans of $50 thousand have been specifically identified as impaired, however the balances are not past due.

Loans, advances and other receivables are stated after the deduction of allowances for loan impairments. Loans, advances and other receivables are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. If any such impairment indicators signify that it is probable that the Group will be unable to collect all amounts due, a provision for impairment is made to reduce the carrying amount of the asset to its estimated recoverable amount. Loans and advances are considered non-performing when amounts are due and unpaid for three months.

When a loan carried at amortised cost has been identified as impaired or the interest earned is not at a market-related rate, the carrying amount of the loan is reduced to an amount equal to the present value of expected future cash flows, discounted at the original effective interest rate of the loan. The resulting loss is recognised in the Statement of Comprehensive Income as an impairment loss. Subsequent to impairment, the effect of discount unwind over time is treated as interest income, based on the original effective interest rate.

Increases in the allowances for loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in the profit or loss.

Loans and advances are written off using specific allowances for loan impairments once all reasonable attempts at collection have been made and, or, there is no realistic prospect of recovering outstanding amounts. Where loans and advances are not specifically reviewed for impairment such balances are collectively assessed for impairment. A collective impairment provision is held to cover losses which, although not yet specifically identified, are present in any portfolio of advances. This is based on observable data of losses incurred and on historic loss patterns.

The Australian Prudential Regulation Authority (APRA) requires the Credit Union to maintain a prescribed level of General Reserve for Credit Losses. The reserve is appropriated from retained earnings to cover losses that would arise over the life of the loans. The difference between the impairment provisions calculated under Australian Accounting Standard and those required by APRA is represented by the General Reserve for Credit Losses within equity.

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **16. Investment properties** | | | | |
| Measured at fair value: | | | | |
| Cost of land with dwellings thereon | 760 | 1,141 | 760 | 1,141 |
| Net loss from fair value adjustments | (33) | (50) | (33) | (50) |
| | **727** | **1,091** | **727** | **1,091** |

The valuation was carried out by Paul Horner, Certified Practicing Valuer of Adelaide & Country Property Valuers on 17 April 2018, using a method of Direct Comparison, and other relevant factors in relation to these properties. The fair value of the Group's investment property for 2017 was arrived at by director's valuation based on sale contracts of two dwellings in June 2017. As these units are directly comparable with the remaining units, the values are representative of the fair value that is within Level 2 in the fair value hierarchy (see Note 23g).

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

## 17. Property, plant and equipment

| | Consolidated and Credit Union | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Cost/Fair Value $'000 | Accumulated Depreciation $'000 | Carrying Value $'000 | Cost/Fair Value $'000 | Accumulated Depreciation $'000 | Carrying Value $'000 |
| Freehold land and buildings-fair value | 9,295 | (295) | 9,000 | 8,249 | (137) | 8,112 |
| Leasehold improvements-cost | 1,573 | (1,223) | 350 | 1,574 | (1,109) | 465 |
| Plant and equipment-cost | 4,161 | (2,705) | 1,456 | 3,959 | (2,539) | 1,420 |
| **Total** | **15,029** | **(4,223)** | **10,806** | **13,782** | **(3,785)** | **9,997** |

Michael Schwarz, Certified Practicing Valuer of M3 Property Strategists performed an independent valuation of the Group's freehold land and buildings on 18 May 2018 determining its fair value. The valuation adopted a capitalisation of net income approach. For the year-end 2017 the carrying value was considered appropriate, on the grounds that the property market in Adelaide has remained relatively stable with the slight increase of net face rents and reduction of yields. The carrying value is within Level 2 of the fair value hierarchy in Note 23g. Had the Group's freehold land and buildings been measured on a historical cost basis, their carrying amount would have been $4.2 million (2017: $4.2 million).

Freehold land and buildings held for supply of services, or 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.

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.

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 and an initial estimate of the costs to decommission and remove items of other property, plant and equipment from leased premises. 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.

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

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

## 18. Deposits

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2018 $'000** | **2017 $'000** | **2018 $'000** | **2017 $'000** |
| Measured at amortised cost: | | | | |
| Members' deposits | 953,265 | 855,707 | 953,265 | 855,707 |
| Redeemable preference shares | 396 | 384 | 396 | 384 |
| | **953,661** | **856,091** | **953,661** | **856,091** |
| Concentration of deposits | | | | |
| Police | 96,595 | 93,953 | 96,595 | 93,953 |
| Nurses | 47,783 | 49,484 | 47,783 | 49,484 |
| Others | 809,283 | 712,654 | 809,283 | 712,654 |
| | **953,661** | **856,091** | **953,661** | **856,091** |

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 76% of all deposits.

## 19. Payables other and Provisions

| | | | | |
|---|---|---|---|---|
| Measured at amortised cost: | | | | |
| Trade payables and accruals | 1,747 | 1,959 | 1,747 | 1,959 |
| Settlement and clearing accounts | 580 | 1,447 | 580 | 1,447 |
| **Total payables other** | **2,327** | **3,406** | **2,327** | **3,406** |
| Employee entitlements | 1,956 | 1,817 | 1,956 | 1,817 |
| Decommissioning commitments | 310 | 306 | 310 | 306 |
| **Total provisions** | **2,266** | **2,123** | **2,266** | **2,123** |

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 thirty days.

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.

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits 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.

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.

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.

## 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.

### 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.

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| Consolidated | Capital Redemption Reserve $'000 | General Reserve $'000 | General Reserve for Credit Losses $'000 | Revaluation Reserve $'000 | Cash Flow Hedging Reserve $'000 | Total Reserves $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2016 | **503** | **12,199** | **1,967** | **3,772** | **(360)** | **18,081** |
| Transfer from retained earnings | 13 | - | 274 | - | - | **287** |
| Loss arising on revaluation of Cuscal shares | - | - | - | (27) | - | **(27)** |
| Income tax relating to loss arising from revaluation of Cuscal shares | - | - | - | 8 | - | **8** |
| Gain arising on changes in fair value of interest rate swaps | - | - | - | | 312 | **312** |
| Deferred tax asset arising on interest rate swaps | - | - | - | - | (93) | **(93)** |
| Re-classification of interest on sale of subsidiary in 2010 | - | (631) | - | - | - | **(631)** |
| Re-classification of income tax relating to sale of subsidiary in 2010 | - | 180 | - | - | - | **180** |
| **Balance at 30 June 2017** | **516** | **11,748** | **2,241** | **3,753** | **(141)** | **18,117** |
| Transfer from retained earnings | 15 | - | 130 | - | - | **145** |
| Gain arising on property revaluation | - | - | - | 1,039 | - | **1,039** |
| Deferred tax asset arising on property revaluation | - | - | - | (296) | - | **(296)** |
| Loss arising on revaluation of Cuscal shares | - | - | - | (64) | - | **(64)** |
| Income tax relating to loss arising from revaluation of Cuscal shares | - | - | - | 19 | - | **19** |
| Gain arising on changes in fair value of interest rate swaps | - | - | - | - | 207 | **207** |
| Deferred tax asset arising on interest rate swaps | - | - | - | - | (62) | **(62)** |
| **Balance at 30 June 2018** | **531** | **11,748** | **2,371** | **4,451** | **4** | **19,105** |
| **Credit Union** | | | | | | |
| Balance at 1 July 2016 | 503 | 12,225 | 1,967 | 3,772 | (360) | **18,107** |
| Transfer from retained earnings | 13 | - | 274 | - | - | **287** |
| Loss arising on revaluation of Cuscal shares | - | - | - | (27) | - | **(27)** |
| Income tax relating to loss arising from revaluation of Cuscal shares | - | - | - | 8 | - | **8** |
| Gain arising on changes in fair value of interest rate swaps | - | - | - | - | 312 | **312** |
| Deferred tax asset arising on interest rate swaps | - | - | - | - | (93) | **(93)** |
| Re-classification of interest on sale of subsidiary in 2010 | - | (657) | - | - | - | **(657)** |
| Re-classification of income tax relating to sale of subsidiary in 2010 | - | 180 | - | - | - | **180** |
| **Balance at 30 June 2017** | **516** | **11,748** | **2,241** | **3,753** | **(141)** | **18,117** |
| Transfer from retained earnings | 15 | - | 130 | - | - | **145** |
| Gain arising on property revaluation | - | - | - | 1,039 | - | **1,039** |
| Deferred tax asset arising on property revaluation | - | - | - | (296) | - | **(296)** |
| Loss arising on revaluation of Cuscal shares | - | - | - | (64) | - | **(64)** |
| Income tax relating to loss arising from revaluation of Cuscal shares | - | - | - | 19 | - | **19** |
| Gain arising on changes in fair value of interest rate swaps | - | - | - | - | 207 | **207** |
| Deferred tax asset arising on interest rate swaps | - | - | - | - | (62) | **(62)** |
| **Balance at 30 June 2018** | **531** | **11,748** | **2,371** | **4,451** | **4** | **19,105** |

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

## 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | % | % | $'000 | $'000 |
| **Parent Entity** | | | | |
| Police Credit Union Ltd | | | | |
| **Controlled entity** | | | | |
| PCU Services Pty Ltd | 100 | 100 | - | - |
| Ian Berry Insurance Services Pty Ltd | 100 | 100 | - | - |
| | | | - | - |

### c) Key management personnel

Key management personnel have been defined as: Police Credit Union Ltd board of nine 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 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 | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| **Key management personnel compensation** | | |
| Short-term employee benefits - including superannuation guarantee levy | 2,311,984 | 2,236,615 |
| Other long-term benefits - accruals for Long Service Leave | 35,170 | 50,769 |
| | **2,347,154** | **2,287,384** |

| | Transaction Accounts | Investment Accounts | Loans Accounts |
|---|---|---|---|
| **Transactions conducted on accounts of key management personnel** | | | |
| **2018** | $ | $ | $ |
| Balance at beginning of year * | (499,016) | (457,155) | 2,835,166 |
| Loans advanced | - | - | 452,257 |
| Deposits/repayments | (3,748,714) | - | (362,918) |
| Withdrawals | 3,675,610 | 250 | - |
| Interest paid | (7,394) | (10,222) | - |
| Interest charged | 6,375 | - | 123,506 |
| **Net balance at end of year** | **(573,229)** | **(467,127)** | **3,048,011** |
| **Year end balances represented by:** | | | |
| Deposit balances | (553,612) | (467,127) | - |
| Overdraft/loan balances | (19,617) | - | 3,048,011 |
| **Net Balance at end of year** | **(573,229)** | **(467,127)** | **3,048,011** |

| | Transaction Accounts | Investment Accounts | Loans Accounts |
|---|---|---|---|
| **Transactions conducted on accounts of key management personnel** | | | |
| **2017** | **$** | **$** | **$** |
| Balance at beginning of year * | (2,248,258) | (5,138,950) | 2,886,261 |
| Loans advanced | - | - | 348,129 |
| Deposits/repayments | (11,725,708) | (775,533) | (519,060) |
| Withdrawals | 11,451,856 | 1,144,033 | - |
| Interest paid | (38,943) | (168,817) | - |
| Interest charged | 6,093 | - | 119,836 |
| **Net balance at end of year** | **(2,554,960)** | **(4,939,267)** | **2,835,166** |
| **Year end balances represented by:** | | | |
| Deposit balances | (2,644,985) | (4,939,267) | - |
| Overdraft/loan balances | 90,025 | - | 2,835,166 |
| **Net Balance at end of year** | **(2,554,960)** | **(4,939,267)** | **2,835,166** |

* The opening balances are not 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.

| | 2018 | 2017 |
|---|---|---|
| | **$** | **$** |
| **Transactions within the wholly-owned group:** | | |
| The table below details the charges for services and other transactions that occurred during the year with related entities: | | |
| Expense recoveries | - | 463,680 |
| Asset rental charges | - | 4,709 |
| Loans and advances to entities in the consolidated group: | - | |
| Advances made | - | 915,510 |
| Repayments | - | (1,185,484) |

## d) Disposal of the subsidiary

Prior to February 28, 2017 the Group held a 60% interest in Police Credit Union Financial Planning Pty Ltd and accounted as a subsidiary. On February 28, 2017 the Group disposed of its 60% interest to a third party for proceeds of $1.038 million. The proceeds of the 40% previously disposed shares in 2010 were re-classified from General Reserve. At the date of the transaction Total Assets were $200 thousand, Total Liabilities were $192 thousand.

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | **2018 $'000** | **2017 $'000** | **2018 $'000** | **2017 $'000** |
| Re-classified from General Reserve | - | 657 | - | 657 |
| Cash proceeds from sale in 2017 | - | 1,038 | - | 1,038 |
| Gain on disposal of subsidiary | - | 1,695 | - | 1,695 |
| Attributable income tax expense | - | (467) | - | (467) |
| Net gain on disposal of subsidiary | - | **1,228** | - | **1,228** |

| | | |
|---|---|---|
| Profit for the year from discontinued operations | | |
| Revenue | - | 581 |
| Expenses | - | (493) |
| Profit before tax | - | 88 |
| Attributable income tax expense | - | (28) |
| Profit for the year from discontinued operations | - | **60** |

## 22. Operating leases

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Future minimum lease payments:** | | | | |
| 0 – 1 year | 1,098 | 1,210 | 1,098 | 1,210 |
| 1 – 2 years | 377 | 727 | 377 | 727 |
| 2 – 5 years | 652 | 1,630 | 652 | 1,630 |
| **Total** | **2,127** | **3,567** | **2,127** | **3,567** |

The Group have entered into non-cancellable operating leases relating to accommodation for branches and ATM spaces. Original lease terms vary from 1 to 10 years, including rent reviews and options to renew for a further term. The remaining term of these leases do not exceed 5 years. These leases do not include an option to purchase the leased asset at the end of the lease.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits of the property. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern in which the benefit is derived from the leased asset.

## 23. 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 re-pricing 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 reduction in the year-end yield curve, the Credit Union expects to lose approximately $1.217 million of forecast interest margin without management intervention. The Credit Union's portfolio of loans and deposits are exposed to falling interest rates. The Credit Union expects to gain a similar amount from a 100 basis point parallel increase in the yield curve. At the end of the prior year, the Credit Union expected to lose approximately $1.019 million from a 100 basis point decrease in the yield curve and gain a similar amount from an increase in the yield curve.

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

| Repricing gap | 0—3 months | >3—6 months | >6 months—1 year | >1—3 years | Over 3 years |
|---|---|---|---|---|---|
| **2018** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Interest rate sensitivity gap: asset/(liability) | 262,437 | (160,371) | (105,972) | 64,705 | 11,189 |
| Cumulative interest rate sensitivity gap | 262,437 | 102,066 | (3,906) | 60,799 | 71,988 |
| % of assets | 25.2% | 9.8% | (0.4%) | 5.8% | 6.9% |
| **2017** | | | | | |
| Interest rate sensitivity gap: asset/(liability) | 184,043 | (75,516) | (122,978) | 66,551 | 14,492 |
| Cumulative interest rate sensitivity gap | 184,043 | 108,527 | (14,451) | 52,100 | 66,592 |
| % of assets | 19.5% | 11.5% | (1.5%) | 5.5% | 7.1% |

### d) Interest rate swaps

The Group enters into interest rate swaps to manage its exposure to interest rate risk. Interest rate swaps are initially recognised at fair value at the date a 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. The interest rate swaps are designated as hedges of highly probable forecast transactions (cash flow hedges).

The Group has entered into interest rate swap agreements paying fixed interest and receiving floating interest based on the 90 day BBSW rate and reset quarterly. 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 outflow on interest rate swaps | Less than 1 month | >1—3 months | >3 months—1 year | >1—3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| 2018 | 14 | (28) | 6 | 14 | - | 6 |
| 2017 | (5) | (73) | (231) | (258) | - | (567) |

Interest rate swaps are designated in cash flow hedge relationships as hedging instruments and are carried at fair value. 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 changing interest rates and the cash flow exposures on the variable rate deposits. 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 | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Expiry date of contracts** | **%** | **%** | **$'000** | **$'000** | **$'000** | **$'000** |
| Less than 1 year | 2.15% | - | 58,000 | - | (47) | - |
| 1 – 2 years | 1.91% | 2.15% | 38,000 | 58,000 | 53 | (193) |
| 2 – 3 years | - | 1.91% | - | 38,000 | - | (37) |
| **Total** | | | **96,000** | **96,000** | **6** | **(230)** |

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, 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.

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

### 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 5 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.

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 financial liabilities:

**Consolidated and Credit Union 2018**

| Cash flows payable in | Less than 1 month | >1—3 months | >3 months—1 year | >1—3 years | Over 3 years | Future interest | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Deposits | 445,542 | 126,352 | 345,766 | 40,802 | 3,570 | (8,371) | 953,661 |
| Payables due to other ADIs | 1,007 | 1,264 | 1,521 | - | - | (27) | 3,765 |
| Payables (other) | 2,327 | - | - | - | - | - | 2,327 |
| **Total** | **448,876** | **127,616** | **347,287** | **40,802** | **3,570** | **(8,398)** | **959,753** |
| **2017** | | | | | | | |
| Deposits | 417,953 | 140,063 | 241,503 | 60,529 | 4,200 | (8,157) | 856,091 |
| Payables due to other ADIs | - | 8,176 | 514 | - | - | (60) | 8,630 |
| Payables (other) | 3,406 | - | - | - | - | - | 3,406 |
| **Total** | **421,359** | **148,239** | **242,017** | **60,529** | **4,200** | **(8,217)** | **868,127** |

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) Effective interest rates as at 30 June

| | 2018 % | 2017 % |
|---|---|---|
| **Weighted average effective interest rates were as follows:** | | |
| **Financial assets** | | |
| Cash and cash equivalents | 1.31 | 1.49 |
| Loans and advances: to other ADIs | 2.83 | 2.54 |
| Loans and advances: to Members | 4.61 | 4.75 |
| **Financial liabilities** | | |
| Deposits | 2.15 | 2.20 |
| Payables due to other ADIs | 2.82 | 2.75 |

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

### g) Fair value 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. |

**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 provisions 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:

| | 2018 | | 2017 | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Fair value hierarchy |
| **Consolidated and Credit Union** | **$'000** | **$'000** | **$'000** | **$'000** | |
| **Financial assets** | | | | | |
| Cash and bank balances | 41,780 | 41,780 | 31,464 | 31,464 | Level 1 |
| Loans and advances: to other ADIs | 124,409 | 123,956 | 100,026 | 102,303 | Level 2 |
| Loans and advances: to Members | 858,442 | 852,451 | 795,919 | 791,827 | Level 2 |
| Investment securities | 1,897 | 1,897 | 1,961 | 1,961 | Level 3 |
| Receivables other | 1,128 | 1,128 | 1,068 | 1,068 | Level 1 |
| Derivative assets | 6 | 6 | - | - | Level 2 |
| **Total financial assets** | **1,027,662** | **1,021,218** | **930,438** | **928,623** | |
| | | | | | |
| **Financial liabilities** | | | | | |
| Deposits | 953,661 | 959,220 | 856,091 | 860,447 | Level 2 |
| Payables due to other financial institutions | 3,765 | 3,767 | 8,630 | 8,633 | Level 2 |
| Payables other | 2,327 | 2,327 | 3,406 | 3,406 | Level 1 |
| Derivative liabilities | - | - | 230 | 230 | Level 2 |
| **Total financial liabilities consolidated** | **959,753** | **965,314** | **868,357** | **872,716** | |

### h) Investment securities

The Group's unquoted equity instruments represent the Credit Union's investment in Cuscal Ltd shares which is stated at fair value and is classified as Level 3 in the fair value hierarchy. The valuation of Cuscal shares occurs once a year in June and is based on Cuscal's maintainable earnings in arriving at its present value. Based on Cuscal's maintainable earnings and a risk adjusted rate of return for each 1% increase in maintainable earnings the value of the investment will increase by 14%. The net fair value gain on revaluation of the Cuscal shares is reflected in the other comprehensive income.

## 24. 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, the Australian Prudential Regulatory Authority ("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 14.68% (2017: 14.93%). The Credit Union's capital adequacy at year-end amounted to 14.66% (2017: 14.89%).

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

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

| | Consolidated | | Credit Union | |
|---|---|---|---|---|
| **Common Equity Tier 1 Capital ("CETI")** | **2018 $'000** | **2017 $'000** | **2018 $'000** | **2017 $'000** |
| Retained Earnings | 59,364 | 55,039 | 59,364 | 55,039 |
| Accumulated other comprehensive income ("OCI") and reserves | | | | |
| Total Accumulated OCI and reserves (*) | 12,279 | 12,264 | 12,279 | 12,264 |
| Revaluation Reserve | 4,455 | 3,612 | 4,455 | 3,612 |
| Accumulated OCI and reserves | 16,734 | 15,876 | 16,734 | 15,876 |
| Non-controlling Interest | - | - | - | - |
| | **16,734** | **15,876** | **16,734** | **15,876** |
| CETI Capital before regulatory adjustments | 76,098 | 70,915 | 76,098 | 70,915 |
| Regulatory Adjustments: | | | | |
| Other Intangibles | 698 | 385 | 698 | 385 |
| Cash-flow hedge reserve | 6 | (200) | 6 | (200) |
| Investments in other ADIs - CUSCAL | 1,897 | 1,961 | 1,897 | 1,961 |
| DTA arising from temporary differences | 841 | 1,125 | 841 | 1,125 |
| **Total Regulatory Adjustments to CETI** | **3,442** | **3,271** | **3,442** | **3,271** |
| Common Equity Tier 1 Capital | 72,656 | 67,644 | 72,656 | 67,644 |
| Additional Tier 1 Capital | - | - | - | - |
| Tier 1 Capital | **72,656** | **67,644** | **72,656** | **67,644** |
| General reserve for credit losses | **2,371** | **2,241** | **2,371** | **2,241** |
| Tier 2 Capital | **2,371** | **2,241** | **2,371** | **2,241** |
| Total Capital | **75,027** | **69,885** | **75,027** | **69,885** |
| Total Risk-Weighted Assets based on APRA standards | **510,960** | **468,051** | **511,855** | **469,460** |
| Capital Ratios and Buffers | | | | |
| Common Equity Tier 1 (as a % of risk-weighted assets) | 14.22% | 14.45% | 14.19% | 14.41% |
| Tier 1 (as a % of risk-weighted assets) | 14.22% | 14.45% | 14.19% | 14.41% |
| Total Capital (as a % of risk-weighted assets) | 14.68% | 14.93% | 14.66% | 14.89% |
| Buffer Requirement | 7.00% | 7.00% | 7.00% | 7.00% |
| 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 | 7.22% | 7.45% | 7.19% | 7.41% |

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

| | | | | |
|---|---|---|---|---|
| Total Accumulated OCI and reserves | 19,105 | 18,117 | 19,105 | 18,117 |
| Revaluation reserve | (4,455) | (3,612) | (4,455) | (3,612) |
| General reserve for credit losses | (2,371) | (2,241) | (2,371) | (2,241) |
| Total Accumulated OCI and reserves for capital | **12,279** | **12,264** | **12,279** | **12,264** |

# Notes to the Financial Statements

## for the financial year ended 30 June 2018

## 25. Contingent liabilities

### Credit Union Financial Support System

Police Credit Union Limited is a party to the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme that Credit Unions affiliated with Cuscal Limited have agreed to participate in.

CUFSS is a company limited by guarantee, each Credit Union's guarantee being $100.

As a member of CUFSS, the Credit Union may be required:

- to advance funds of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support; and
- agrees, in conjunction with other members, to fund the operating costs of CUFSS.

It is the policy of the Credit Union to maintain sufficient liquid Investments with Cuscal Limited to ensure that, if required, the Credit Union has the necessary funds available to meet its obligations in terms of the scheme.

The Credit Union has given notice to terminate its participation in the Credit Union Financial Support Scheme that will be effective on 1 November 2018.

## 26. Significant Alliances

Police Credit Union has a significant alliance with Cuscal Limited**.** Cuscal Limited operates a financial switching service allowing access to payment and settlement services such as EFTPOS, direct entry, BPAY, VISA and ATM management services. Police Credit Union also holds shares in Cuscal Limited.

## 27. Subsequent Events

To enhance its access to liquid funds, Police Credit Union has established a self-securitisation repurchase facility. A trust has been established with Police Credit Union as the sole beneficiary. Police Credit Union has sold its rights to the future cashflows of up to $130.0 million of eligible residential mortgage secured loans, and in return has been issued with notes equal to the aggregate value of such loans. This note is held by Police Credit Union for sale to the Reserve Bank of Australia subject to repurchase. This facility enhances the overall liquidity resilience of Police Credit Union.

# Directors' Declaration

## for the financial year ended 30 June 2018

The Directors declare that:

1. in the Directors' opinion, there are reasonable grounds to believe that 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.

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, 26 September 2018

# Independent Auditor's Report

## 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, each of the accompanying Group Financial Report and Company Financial Report of Police Credit Union Limited are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group*** and ***Company's*** financial position as at 30 June 2018 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 the Company comprise:

- Statements of financial position as at 30 June 2018;
- 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 the 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 audits 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 opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits 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* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

# Independent 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. The Other Information we obtained prior to the date of this Auditor's Report was the Directors' report.

Our opinions on the Financial Reports do 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 audits 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 audits, 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 Reports

The Directors are responsible for:

- preparing 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; and
- 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 audits of the Financial Reports

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 opinion.

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 Report.

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

KPMG

Darren Ball
Partner

Adelaide

26 September 2018

# What our Members say...

*I would never bank at a regular bank again. I feel at home when I walk into my Police Credit Union branch and I have security and peace of mind...*

Kim, Moulden, NT

*Police Credit Union meets all my needs with good rates, friendly and helpful staff who bend over backwards to help...*

Ian, Flagstaff Hill, SA

*Police Credit Union offers very competitive products, low fees and provides great service.*

David, Marion, SA

*Genuine people offering sound financial advice and assistance...*

Kendall, Humpty Doo, NT


*Trustworthy financial institution, that is a great alternative to the big banks. Excellent value for money, competitive and local.*

Matthew, Seacliff Park, SA

**Police Credit Union Ltd**
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AFSL/Australian Credit Licence 238991

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