2019 Annual Report

Police Credit Union
Better Banking

50 YEARS STRONG

Major Sponsorships

A major sponsor of Crime Stoppers SA and Adelaide Footy League

Major Business Partners

Auditors

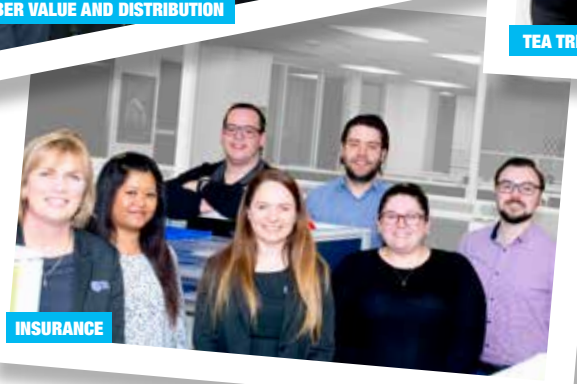
KPMG
151 Pirie St
Adelaide SA 5000

Solicitors

Piper Alderman
16/70 Franklin St
Adelaide SA 5000

MEMBER VALUE AND DISTRIBUTION

TEA TREE PLUS BRANCH



INSURANCE

YORKETOWN BRANCH

LENDING

FINANCE

PEOPLE AND CULTURE

RETAIL OPERATIONS

PROPERTY AND RECORDS MANAGEMENT

INFORMATION TECHNOLOGY

ADELAIDE BRANCH

Meet some of our team


MT BARKER BRANCH


MARKETING

PALMERSTON BRANCH


RISK AND COMPLIANCE


CONTACT CENTRE


DIRECT LENDING UNIT


EXECUTIVE TEAM


MARION BRANCH

MT GAMBIER BRANCH


BUSINESS LENDING

Chairman's and CEO's Report

We are pleased to report, as we enter our 50th year of operations, a near-record 93.1% Member satisfaction score, strong performances in our people-based and risk-based culture indices, an 8.54% increase in profit after tax of $4.852 million, and a 9.1% increase in total assets to $1.135 billion for the period to 30 June 2019. Our enduring commitment to core values of superior service, honesty, integrity and financial prudence continues to serve us well. Maintaining this values-based approach to our business is crucially important as we navigate particularly uncertain and challenging economic conditions, against a backdrop of global geopolitical tensions and an intensifying regulatory reform agenda. As a Member-owned credit union, where you, our Members, and you, our customers are one and the same, we continue to reinvest all profits back into our business to build an innovative, resilient and sustainable future, whilst also ensuring a strong commitment to our community and environment.

Despite operating in moderate to lacklustre market conditions, characterised by intense competition, low interest rates, low consumption and domestic GDP growth, the Police Credit Union brand continues to perform well, displaying attributes of strength, credibility, trust and reliability. We are recognised by over 52% of the South Australian population, ranking number 7 of all financial institution brands, and the most recognised credit union brand in the state. Coupled with our positive culture, we remain well positioned to continue our path of sustainable growth and strategic success.

As a regulated Authorised Deposit Taking Institution (ADI), 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 depositors, Members, employees and the general public, it also ensures that the Credit Union is able to achieve measured growth outcomes; sustain, invest and enhance our current operational capacity; continue to build shareholder value; invest in key areas of innovation and infrastructure; and importantly, successfully implement our strategic planning objectives.

The following table presents a summary of the key financial performance metrics reflecting the financial performance outcomes of Police Credit Union. These results meet or exceed our long-term strategic targets.

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

Summary of Financial Performance Metrics

	30 June 2019	Strategic Target Achieved
Profit After Tax	$4.852 million	✓
Group Assets	$1.135 billion	✓
Growth in Total Assets	9.1%	✓
Growth in Loans	12.0%	✓
Return on Assets	0.44%	✓
Return on Equity	5.98%	✓
Expenses to Income	76.0%	✓
Expenses to Assets	2.05%	✓
Capital Adequacy	14.04%	✓

- **Net Interest Income** increased by 9.1% during the year. Throughout the financial period, the Credit Union was able to provide Members with continued market leading interest rates across its home, investment and personal lending portfolio. The result comprised an increase of 9.49% in interest income, reflecting growth of 12% in loan advances for the period. Whilst the cost of funding remained relatively high, careful deposit portfolio management resulted in interest expenses being contained to a 9.90% increase for the period. Net interest margin concluded the period at 2.15%, consistent with the previous period.
- **Fee and Commission Income** increased by a modest 1.50% to $5.5 million, reflecting a continued overall commitment to contain Member fees and charges at or below cost recovery. Insurance commissions for the period increased by 5.29% noting that Police Credit Union managed over 27,673 insurance policies, representing gross written premiums of $11.97 million at year end.
- **Impairment Losses** on loans decreased by 46.5% to $92k despite loan and advances growing by 12%. This is a continued outstanding achievement reflecting conservative risk settings, prudent and responsible lending practices, strong compliance and policy frameworks, careful credit portfolio management, and continued high quality growth in loan advances.
- **Operating Expenses** increased by 6.83% for the period. Increases in salaries reflected investments in additional human resources as well as legal and compliance costs, to manage ongoing and continued focus on technology and regulatory impositions.

  Despite this increase, operating efficiency as measured by the operating cost to income ratio closed the year slightly better at 76.04%, and asset efficiency as measured by operating cost to average assets ratio improved to 2.05% for the period.
- **Total Assets** grew by 9.1% to $1.135 billion at year end. This was underpinned by an increase of 12% in loan advances to Members, totalling $961 million. Our loans portfolio comprises 82% residential, 7% personal and overdrafts, and 11% commercial. During the period, we advanced a record $318.9 million in loans to Members.

- **Total Liabilities** increased by 9.3% to $1.05 billion for the period. Deposits comprise 99% of total liabilities and increased by 9.05% for the financial period.
- **Total Equity (Member Reserves)** increased by 6.17% for the period to $83.3 million and resulted in the achievement of a Capital Adequacy Ratio of 14.04%, well above the regulatory minimum.

In delivering sustainable long-term strategic success, your Board and Leadership team are of the firm belief that the non-financial metrics of the business are as important as the financial performance indicators. These indicators provide critical insight into the key organisational value-drivers and reflect important engagement, risk, resilience and cultural attributes of the business. The strategic balanced scorecard approach, now in place since the year 2000, facilitates and measures achievement and success across the following key pillars of performance:

- financial performance
- innovation and improvement
- customer experience
- people, culture and risk
- community and environment

Summary of Non-Financial Performance Metrics

Community Engagement Index	30 June 2019	Strategic Target Achieved
Member Satisfaction Rating	93.10%	✓
Products per Member	5.20	✓
Per Member Value for the 12-month period	$271.87	✓
Employee Satisfaction Index	90.0%	✓
People-based Culture Index	94.3	✓
Risk-based Culture Index	87.0	✓
Organisational Resilience Index	90.0	✓
Innovation Index	91.0	✓
Average Significant Risk Score	34.7	✓
Annual Community Investment Spend ($'000)	$556	✓
Community Engagement Index	96.0	✓
Carbon Emissions Footprint	zero	✓

Key to the future success of Police Credit Union is its ability to sustain excellence in its customer service proposition. The foundation of superior service is entrenched in our core values statement and by definition is intended to remain an enduring long-term feature of our value proposition to Members. The importance of this customer-centric approach in the context of retaining a sustainable competitive advantage in a highly congested, disrupted and competitive market, cannot be underestimated.

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 Members, both internally and customer-facing. We are committed to preserving our traditional and modern face-to-face branch environment whilst investing in

For the period to June 2019, Police Credit Union achieved a Member satisfaction rating of 93.1%, successfully achieving our benchmark for the 10th consecutive year.

state-of-the-art, convenient and reliable digital platforms. We have continued our investment program in branch upgrades, having renovated the Adelaide branch and relocated the Darwin branch to Palmerston in brand new premises. Over the immediate year ahead we plan to further upgrade our website, deliver a new enhanced Banking App, and also launch online memberships and secure documents.

For the period to June 2019, Police Credit Union achieved a Member satisfaction rating of 93.1%, successfully achieving our benchmark for the 10th consecutive year. During this same period, Police Credit Union recorded a Net Promotor Score of 93.5, reflecting the strength of advocacy of our Members in positively promoting our brand. The competitive strength of our product range and the positive customer engagement ethos is also reflected in the number of products per Member, which increased to a record 5.20 for the period.

Being a Member-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, factoring in important measures relating to service standards, our better loan and deposit interest rates, free access services, and fairer fees and charges. Member value was calculated at a record $271.87 per Member, or, in aggregate, $10.7 million pre-tax, for the 12 months to 30 June 2019, representing an increase of 6.2% from the previous period.

Fundamental to our long-term success lies in our people approach, putting the 'who' before the 'what', and building an inclusive and diverse positive culture of engagement and high-performance.

We have continued to invest in the lifecycle management of employee engagement, and this has paid dividends, resulting in a stronger, more resilient and high-performance team culture. As a result, we achieved an outstanding overall employee satisfaction rating of 90%. Testimony to the strength of employee advocacy, loyalty and permanence, and willingness to apply discretionary effort, we achieved an employee engagement score of 92.35% for the 2019 period, ranking Police Credit Union in the global best practice quartile of performance.

Last year we outlined important new initiatives in the development of metrics to oversee the strength of our organisational culture. We believe that a positive culture is critical to delivering sustainable performance

outcomes. During the period, we proceeded to implement advanced culture indices to monitor and strengthen key attributes fundamental to culture measurement and oversight. We developed two indices, one of which aggregates various 'hard' risk-based measures relating more to Police Credit Union's performance against non-negotiable requirements, and the other focussed on the people-based aspect of culture, measuring those aspects of culture which relate to our employee behaviours and conduct, with respect to customer engagement outcomes. These are now in place and are reported to and oversighted by Management and the Board on a monthly basis. We are pleased to report strong and successful results in both metrics.

Notwithstanding the 99.9% reliability uptime of customer-facing banking services during 2019, the Credit Union has also implemented a strategic Organisational Resilience Index, which rated 90% at year end, a result which achieved our strategic objective. The index further strengthens 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.

During the period, Police Credit Union has contributed a record $556K to our communities, representing a cumulative Community Investment Spend of over $4.5 million since 2006.

Our aspiration to become a great organisation is integral to our strategy and is dependent on remaining relevant and adaptable in a rapidly changing market. Our innovation agenda is centred on better understanding our customers and staying relevant by implementing initiatives which will add value to the customer interaction or experience. We continue to seek and implement agile innovative improvements to enhance the customer experience, and to refine workflows and operational efficiency across our business platforms. During the period we successfully upgraded our core banking system, relocated our disaster recovery systems to a state-of-the-art centre, delivered Samsung Pay and upgraded our Banking App. We continue to invest significantly in enhanced cyber-security systems to ensure heightened resilience in the protection of all systems and data, including improved fraud detection, blocking and recovery capability. As a result of all of this, we concluded the year ahead of expectations as measured by our Innovation Index score of 91.

We are also pleased to advise that a new proprietary financial health check portal will soon be launched. This initiative will enable us to more effectively engage Members and facilitate for them a more intimate understanding of their financial position, so that they can make informed choices to improve that position and achieve their financial goals and aspirations.

As the custodian of our depositors' funds, maintaining strong risk and compliance frameworks is of primary importance 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. We achieved a record low Risk-Index measure of 34.7 for the 2019 period. 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 existing and emerging risks that will confront us during the forthcoming period and beyond.

During the period, Police Credit Union has contributed a record $556K to our communities, representing a cumulative Community Investment Spend of over $4.5 million since 2006. We have also exceeded our Community Engagement Index measure, reflecting strength in participation, inclusion, deliberation and positive influence in our communities. We proudly remain a carbon neutral entity, having achieved this position in 2018. Not content with this market-leading position, we are planning to implement initiatives to neutralise the carbon footprint associated with products such as car and home loans into the future.

As an ADI, Police Credit Union 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 our customer-shareholders as well as the broader community.

Thank you

The outstanding results for the 2019 financial period are testament to the work ethic and tireless commitment of our passionate, dedicated and professional 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") and its controlled entities (together referred to as "the Group") submit herewith the annual financial report for the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report is presented below.

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

Alexander Paul Zimmermann 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; 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; Secretary Police Commissioned Officer's Mess 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, MBA, FCPA, FAICD, FCIS, AFAIML

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; Director KP Advisory Pty Ltd; Non-Executive Director and Chairman Funds SA Audit Committee; Advisory Board Member SAFA; Council and Audit Committee Member Walford Anglican School for Girls; Council Member and Chairman University of Adelaide Finance, Estates and Infrastructure Committee; Independent Chair Risk and Performance Committee Department of Treasury and Finance; Fellow CPA Australia; 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 - former Secretary and Executive Member, Police Association of South Australia and former Senior Sergeant First Class, Police.
Director since: 2016
Member Board Audit Committee; Member Board Risk Committee; Member Australian Institute of Company Directors; Life Member Police Association of SA; Deputy Mayor and Councillor City Charles Sturt (CCS); Member of CCS Asset Management Committee; Member of CCS Audit Committee.

Paul Schramm APM, FAICD
Cert. Police Studies

Current Occupation: Retired Detective 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	12	-	-	-	-	3	2
M Fisher	12	11	-	-	4	4	3	3
P Alexander	12	12	-	-	4	2	3	3
A Dunn	12	12	4	4	-	-	-	-
K Presser	12	10	4	4	-	-	3	3
P Schar	12	12	4	4	-	-	3	3
T Scheffler	12	9	4	3	4	3	-	-
P Schramm	12	10	-	-	4	4	-	-
M Standing	12	11	4	3	4	4	-	-

Company Secretary

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

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

On behalf of the Directors

Alexander Paul Zimmermann
Chairman

Adelaide, 25 September 2019

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 2019 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

25 September 2019

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 25 years' experience in the credit union industry, joining Police Credit Union in 2001. He is the Chairperson of the Product and Pricing Committee.

Paul has held an Executive Management position at Police Credit Union for 11 years and is the Deputy Chief Executive Officer. Paul has senior executive responsibility for the branch network, Relationship Managers, Contact Centre, Ian Berry Insurance Services, Retail Operations and Product teams. 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 Ltd 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

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.

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.

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 30 years combined experience in accounting, banking and finance. James is a Chartered Accountant who commenced his career with a top 4 accounting firm before moving to the banking and finance industry. James has undertaken a number of roles with both international and Big Four 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 17 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. He was appointed as a Company Secretary in 2019, to act in that capacity in the CEO's absence. With over 25 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.

Annie Rafferty

Head of People and Culture

BPsych, BBehavSci (Hons)

Annie commenced with Police Credit Union in 2014 and was appointed as Head of People and Culture in 2018. Annie has over 15 years of experience working across all disciplines within the human resources field, including industrial and employee relations, organisational learning and development, remuneration and benefits and work health, safety and well-being.

As Head of People & Culture, she is responsible for the implementation of the strategy which incorporates all key elements of an employee's life cycle at Police Credit Union. This includes overseeing all recruitment and employment activity, induction and onboarding, work health and safety, performance management, resources related policies, workplace diversity and inclusion, and career development and learning.

Annie is a member of Police Credit Union's Community, Environment, Employee Engagement and Diversity Committee (CEEED), the Work Health, Safety & Well-being Committee (Secretary), the Staff Superannuation Committee (as an Employer Representative) and the Compliance and Operational Risk Committee and is the Credit Union's Return to Work Coordinator and Equal Employment Opportunity Officer.

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 its ethics, values and the conduct of all Employees, Management and Directors.

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 2019

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

To fulfil this role, the Board develops, approves and undertakes; the setting of organisational strategic direction, the setting of financial and non-financial objectives and metrics, and the monitoring of Management's progress against these plans and objectives, together with operational oversight. This approach ensures that the Board is able to apply strong ongoing oversight of compliance with its legal, regulatory and environmental obligations, culture and conduct expectations, together with established Member/customer product and service performance standards and ongoing operational integrity.

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 2018-19.

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 Australian Institute of Company Directors 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

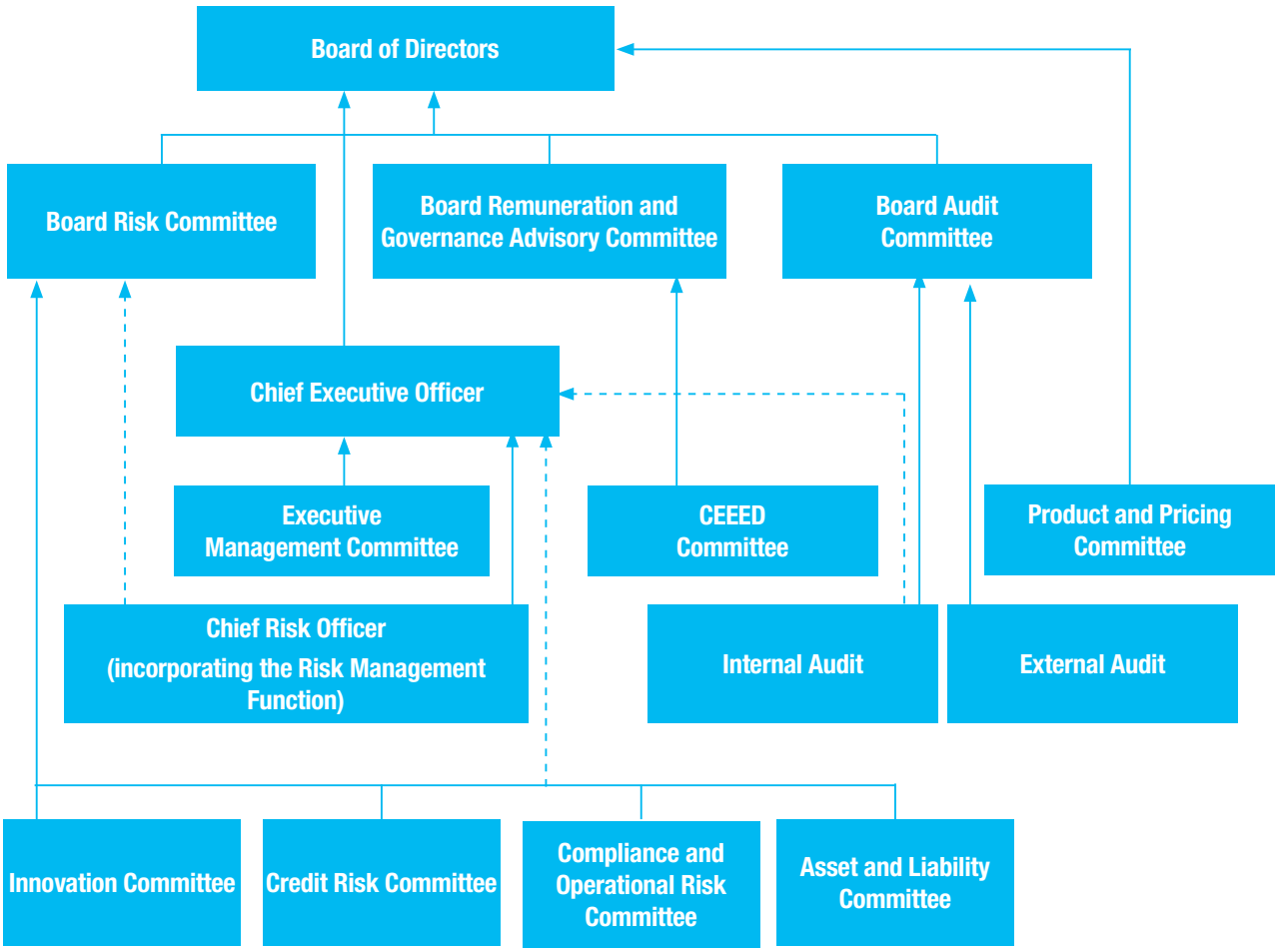
Police Credit Union maintains a robust framework to ensure that individuals appointed to senior positions within the Credit Union have the appropriate fitness and propriety to fulfil their prudential responsibilities. The framework set out in the Credit Union's Fit and Proper Policy addresses the requirements of APRA 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 Nomination Panel during any period in which it is dealing with an election in which the Director is a candidate.

Accountability

In addition to and separate from the above Fit and Proper requirements, Police Credit Union's Directors, Chief Executive Officer, Executive Managers and Internal Auditor have all been appointed as Accountable Persons with APRA, as required by the Banking Executive Accountability Regime and the Banking Act 1959. Police Credit Union and its Accountable Persons will ensure it meets the additional obligations imposed by this legislation including to, at all times:

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



Board Processes

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

Committee Structure

The diagram on the previous page details the Credit Union's committee structure as well as the established risk governance structure. The detailed role of each committee and the Credit Union's internal control and risk management framework is provided in the following sections.

Board Remuneration and Governance Advisory Committee

The Board Remuneration and Governance Advisory Committee is a Committee of the Board established in accordance with the Credit Union's Constitution and as required by APRA Consolidated Prudential Standard CPS 510 (Governance).

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

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

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

Board Audit Committee

The Board Audit Committee is a Committee of the Board established in accordance with the Credit Union's Constitution and as required by APRA Consolidated Prudential Standard CPS 510 (Governance).

The 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 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 organisational wide risk culture which encourages taking appropriate and relevant risks that are adequately rewarded and that support Police Credit Union's strategic direction.

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

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

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

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

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

Asset and Liability Committee

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

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

Credit Risk Committee

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

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

Compliance and Operational Risk Committee

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

The Committee is responsible for management and oversight of Non-financial risk, such as compliance risk, conduct risk and all operational risks. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal; regulatory; business continuity; fraud; work health, safety & welfare; technology and reputational risks. The Committee ensures that employees possess appropriate skills for their role and that effective systems and policies are in place to ensure adherence to robust compliance and risk management frameworks that align with and contribute to PCU's desired organisational culture.

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, concepts, and efficiency improvements that support the strategic direction of the Credit Union. Without limiting its scope, the Committee is mandated to embrace disciplined and agile structure to enable it to engage throughout the business and externally in staying abreast of industry and technology trends, and ensuring that the Credit Union adopts emerging ideas and concepts to remain relevant. The Committee ensures that initiatives undertaken are consistent with Police Credit Union's strategic direction and risk appetite.

Product and Pricing Committee

The Product and Pricing Committee reports to the Executive Management Committee and Board and is responsible for the effective and strategic management of products including the monitoring and setting of interest rates and fees and charges, enhancement of products and services, and the management of transactional risk controls. The Committee actively considers the impact of its decisions across access channels, ensuring that product and marketing strategies are aligned with the customer experience, strategic and asset and liability risk, and sales, distribution and lending strategies.

Community, Environment and Employee Engagement & 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

Working in the financial services industry comes with special obligations because we make important decisions that can impact on our Members lives and the broader community. The public has a right to expect that Police Credit Union operates with honesty, integrity, fairness, transparency and efficiency. We have an important obligation to ensure that our decisions and behaviours are consistent with the law, our policies, regulatory standards and community expectations.

The Board and Executive Management Team are committed to, and acknowledge the importance of, the highest standards of ethical conduct and behaviour by all Officers and Employees of Police Credit Union. The Board maintain and annually review the Police Credit Union Code of Ethics Policy, which contains a comprehensive overview of expected values, behaviours and conduct, and is issued to all Employees as part of induction and as part of the annual ongoing training calendar.

The Code of Ethics policy provides a framework to guide interactions with Members, suppliers, stakeholders and the broader community. Our commitment to maintaining a positive and ethical culture is directly aligned with our core values of superior service, honesty, integrity and financial prudence, which also underpin the basis of business decisions, actions, conduct and behaviours. The Code of Ethics Policy provides specific guidelines for Directors and Employees, such 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 Internet site at www.policecu.com.au.

Financial Statements

for the financial year ended 30 June 2019

Statement of Comprehensive Income

for the financial year ended 30 June 2019

		Consolidated		Credit Union	
	Note	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Interest income		44,935	41,041	47,470	41,041
Interest expense		(21,621)	(19,672)	(26,037)	(19,672)
Net interest income	5	23,314	21,369	21,433	21,369
Fee and commission income	6	5,481	5,400	5,582	5,400
Other operating income	7	508	600	2,206	600
Impairment losses on loans and advances	15	(92)	(172)	(92)	(172)
Operating expenses	8	(22,280)	(20,855)	(22,198)	(20,855)
Profit before tax		6,931	6,342	6,931	6,342
Income tax expense	10 (a)	(2,079)	(1,872)	(2,079)	(1,872)
Profit for the year from continuing operations		**4,852**	**4,470**	**4,852**	**4,470**
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
Change in fair value gain/(loss) on equity investments	20	4	(45)	4	(45)
Item that may be reclassified subsequently to profit and loss:					
Effective portion of change in fair value of cash flow hedges	20	(43)	145	(43)	145
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,813**	**5,313**	**4,813**	**5,313**

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

Statement of Financial Position

as at 30 June 2019

		Consolidated		Credit Union	
	Note	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Assets					
Cash and bank balances	11	28,095	41,780	21,894	41,780
Receivables other	12	1,186	1,128	1,186	1,128
Loans and advances: to other ADIs	13	129,030	124,409	129,030	124,409
Loans and advances: to Members	14	961,293	858,442	961,293	858,442
Investment securities	23 (g)	1,903	1,897	132,380	1,897
Investment properties	16	727	727	727	727
Property, plant and equipment	17	10,946	10,806	10,946	10,806
Intangible assets		901	698	901	698
Derivative assets	23 (d)	-	6	-	6
Deferred tax assets	10 (c)	1,023	841	1,023	841
Total Assets		**1,135,104**	**1,040,734**	**1,259,380**	**1,040,734**
Liabilities					
Deposits	18	1,039,990	953,661	1,039,990	953,661
Payables due to other ADIs		4,787	3,765	4,787	3,765
Borrowings	14	-	-	124,276	-
Payables other	19	3,827	2,327	3,827	2,327
Derivative liabilities	23 (d)	73	-	73	-
Current tax liabilities	10 (b)	715	246	715	246
Provisions	19	2,398	2,266	2,398	2,266
Total Liabilities		**1,051,790**	**962,265**	**1,176,066**	**962,265**
Net Assets		**83,314**	**78,469**	**83,314**	**78,469**
Equity					
Reserves	20	17,701	19,105	17,701	19,105
Retained earnings		65,613	59,364	65,613	59,364
Total Equity		**83,314**	**78,469**	**83,314**	**78,469**

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

Statement of Changes in Equity

for the financial year ended 30 June 2019

Consolidated

	Reserves	Retained Earnings	Total
	$'000	**$'000**	**$'000**
Balance at 1 July 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**
Adjustment on initial application of AASB 9 and AASB 15, net of tax	-	32	32
Restated balance at 1 July 2018	**19,105**	**59,396**	**78,501**
Profit for the year	-	4,852	4,852
Other comprehensive loss for the year	(39)	-	(39)
Total comprehensive income for the year	(39)	4,852	4,813
Transfers to retained earnings	(1,365)	1,365	-
Balance at 30 June 2019	**17,701**	**65,613**	**83,314**

Credit Union

	Reserves	Retained Earnings	Total
	$'000	**$'000**	**$'000**
Balance at 1 July 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**
Adjustment on initial application of AASB 9 and AASB 15, net of tax	-	32	32
Restated balance at 1 July 2018	**19,105**	**59,396**	**78,501**
Profit for the year	-	4,852	4,852
Other comprehensive loss for the year	(39)	-	(39)
Total comprehensive income for the year	(39)	4,852	4,813
Transfers to retained earnings	(1,365)	1,365	-
Balance at 30 June 2019	**17,701**	**65,613**	**83,314**

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

Statement of Cash Flows

for the financial year ended 30 June 2019

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Profit before tax	6,931	6,342	6,931	6,342
Adjustment for non-cash items:				
Allowance for credit impairment	36	19	36	19
Depreciation and amortisation charges	920	877	920	877
Loss/(gain) on sale of plant and equipment	77	(62)	77	(62)
Loss on sale of investment property	-	14	-	14
Fair value gain on investment properties	-	(17)	-	(17)
Amortisation of loan fee income	164	86	164	86
Changes in operating assets and liabilities:				
Loans and advances: to Members	(103,510)	(62,628)	(103,510)	(62,628)
Loans and advances: other ADIs (maturity greater than three months)	(30,520)	(26,471)	(30,520)	(26,471)
Deposits	86,329	97,570	86,329	97,570
Payables and other liabilities	1,512	(1,103)	1,512	(1,103)
Provisions	165	144	165	144
Receivables and other assets	88	300	88	300
Income tax paid	(1,789)	(1,027)	(1,789)	(1,027)
Net cash from/(used in) operating activities	**(39,597)**	**14,044**	**(39,597)**	**14,044**
Purchase of property, plant and equipment and intangibles	(1,407)	(1,031)	(1,407)	(1,031)
Proceeds from sale of property, plant and equipment	32	80	32	80
Proceeds from sale of investment property	366	-	366	-
Net cash used in investing activities	**(1,009)**	**(951)**	**(1,009)**	**(951)**
Payables due to other ADIs	1,022	(4,865)	1,022	(4,865)
Borrowings	-	-	(6,201)	-
Net cash from/(used in) financing activities	**1,022**	**(4,865)**	**(5,179)**	**(4,865)**
Net (decrease)/increase in cash held	(39,584)	8,228	(45,785)	8,228
Cash at the beginning of the financial year	70,682	62,454	70,682	62,454
Cash and cash equivalents at the end of the year	**31,098**	**70,682**	**24,897**	**70,682**
Cash and cash equivalents comprise:				
Cash and balances with banks	28,095	41,780	21,894	41,780
Loans and advances: other ADIs	129,030	124,409	129,030	124,409
Less: amounts with maturity greater than three months	(126,027)	(95,507)	(126,027)	(95,507)
	31,098	**70,682**	**24,897**	**70,682**

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

Notes to the Financial Statements

for the financial year ended 30 June 2019

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 25 September 2019.

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, investment in equity investments and derivatives. 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.

Changes in accounting policies

The Group has adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers from 1 July 2018.

Due to the transition method chosen by the Group in applying AASB 9 and AASB 15, comparative information throughout these financial statements has not generally been restated to reflect its requirements. Accordingly, the impact of adopting these standards is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in impairment losses recognised on financial assets (see Note 15);
- An increase in receivable recognised for commission income (see Note 12);
- Additional disclosure related to AASB 9 (see Note 14 and 15); and
- Additional disclosure related to AASB 15 (see Note 6).

The following table summarises the impact of transition to AASB 9 and AASB 15 on the opening balance of the Retained Earnings. There is no impact on other components of equity.

	Impact of adopting AASB 9 and AASB 15 at 1 July 2018 ($'000)
Retained Earnings	
Closing balance on 30 June 2018	59,364
Adjustment related to AASB 9, net of tax	(322)
Adjustment related to AASB 15, net of tax	354
Opening balance under AASB 9 and AASB 15 (1 July 2018)	59,396

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and derecognition of financial assets (refer to Note 3(c)) and financial liabilities (refer to Note 3(d)) and introduces new rules for hedge accounting (refer to Note 23(d)), and loan provisioning (refer to Note 15).

The Group adopted AASB 9 using the modified approach with a date of transition of 1 July 2018. On transition, an adjustment has been recognised in retained earnings in relation to the provision for loan impairment. As permitted by AASB 9, the Group has not restated its comparative financial statements.

The below table represents classification and carrying amount of financial assets and liabilities on the date of initial application of AASB 9:

	AASB 139 Classification	AASB 139 carrying amount 30 June 2018 ($'000)	Re-classification/ Adjustments	AASB 9 Classification	AASB 9 carrying amount 1 July 2018 ($'000)
Financial Assets					
Cash and bank balances	Loans and receivables	41,780	-	Amortised cost	41,780
Loans and advances: to other ADIs	Held to maturity	124,409	-	Amortised cost	124,409
Loans and advances: to Members	Loans and receivables	858,442	(459)	Amortised cost	857,983
Investment securities (Cuscal Ltd Shares)	Available for sale	1,897	-	FVOCI	1,897
Receivables other	Loans and receivables	1,128	-	Amortised cost	1,128
Derivative assets	FVOCI	6	-	FVOCI	6
Financial Liabilities					
Deposits	Amortised cost	953,661	-	Amortised cost	953,661
Payables due to other ADIs	Amortised cost	3,765	-	Amortised cost	3,765
Payables other	Amortised cost	2,327	-	Amortised cost	2,327

AASB 15 Revenue from Contracts with Customers

AASB 15 sets out a new framework for revenue recognition, replacing the principles under the former standards AASB 118 Revenue and AASB 111 Construction Contracts. It requires identification of performance obligations within a contract and an associated transaction price that is allocated to these performance obligations. Revenue is recognised upon satisfaction of these performance obligations, which occurs when a customer obtains control of the goods or services. The control may be transferred at a point in time or over a period of time.

The Group's revenue from contracts with customers primarily consists of fee and commission income. The Group adopted AASB 15 using the modified retrospective method with a date of transition of 1 July 2018. On transition a contract receivable of $505 thousand was recognised for the expected commission receivable on household and motor policies arranged through the Group's insurance provider.

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.

During the year, the Group established and operated a securitisation vehicle under its self-securitisation program. The Group has concluded that it controls the securitisation vehicle.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other Members of the Group.

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

Policy applicable before 1 July 2018

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 23(f). 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 Ltd.

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.

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.

Investments in subsidiaries

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

Policy applicable after 1 July 2018

The Group initially recognises loans and advances and deposits, on the date on which they are originated. All other financial instruments are recognised on a trade date, which is the date on which the Group becomes a party to the contractual provisions of the instruments. A financial asset is measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. From 1 July 2018 with adoption of AASB 9, a financial asset is classified into one of the three specified categories: "measured at amortised cost", "fair value through other comprehensive income (FVOCI)", and "fair value through profit and loss (FVTPL).

Financial assets measured at amortised cost

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

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

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

Financial assets measured at FVOCI

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

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

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

The Group's investment in an equity instrument, Cuscal Ltd is designated to be measured at FVOCI. The FVOCI designation was made because the investment is expected to be held for the long-term strategic purposes, rather than for trading. The investment is stated at fair value. Fair value is determined in the manner described in Note 23(f). All fair value changes are recognised in the investment revaluation reserve and are never reclassified to profit or loss, even on disposal. Dividends on the investment are recognised in profit or loss. The investment in Cuscal Ltd is not quoted on an active market, but there is a market in the shares and prices on trades are disclosed to the Members of Cuscal Ltd. Prior to 1 July 2018, the investment in Cuscal Ltd was classified as available-for-sale and measured at fair value.

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

Investments in subsidiaries

Investments in subsidiaries continue to be 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.

There were no changes to classification and measurement of financial liabilities as a result of adoption of AASB 9.

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.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2019

f) Securitisation

The Credit Union has established a securitisation trust for the purpose of issuing notes that are eligible for borrowing funds via Repurchase Agreements with the Reserve Bank of Australia for emergency liquidity. The MTG PCU Trust Repo Series No 1 ("MTG PCU Trust" or "Trust") was established on 3 September 2018. The Credit Union has transferred an equitable interest in mortgages to the MTG PCU Trust on 25 September 2018 and received Class A Notes for the total amount of $120 million and Class B Notes for the total amount of $10 million. The Credit Union holds all notes issued by the MTG PCU Trust Repo Series No.1, manages the loans, and retains all residual benefits and costs of the loan portfolio.

The residual benefits and costs on this loan portfolio are retained by the Credit Union. As there has not been a transfer of all risks and rewards of these loans to the MTG PCU Trust, such loans are not derecognised in the Credit Union's financial statements and the Trust meets the definition of the controlled entity. The Group presents a set of financial statements representing the financial performance and financial position of the parent and the securitisation trust. Details of the balances of securitisation trust are disclosed in Notes 14 and 23(g).

g) 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 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 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 balance sheet. 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. The expected increase in assets and liabilities has been estimated at between $4.7 million and $6.0 million.

h) 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 (f) and (g).

Useful lives of property, plant and equipment and intangible assets

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

Credit impairment losses on loans and advances

Non-performing loans

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

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

Notes to the Financial Statements

for the financial year ended 30 June 2019

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000

5. Net interest income

Interest income				
Loans and advances: to other ADIs	3,984	3,376	3,920	3,376
Loans and advances: to Members	40,951	37,665	40,951	37,665
Notes receivable – MTG PCU Trust	-	-	2,599	-
	44,935	41,041	47,470	41,041
Interest expense				
Deposits	21,460	19,500	21,460	19,500
Payables due to other ADIs	161	172	161	172
Payable to MTG PCU Trust	-	-	4,416	-
	21,621	19,672	26,037	19,672
Net interest income	**23,314**	**21,369**	**21,433**	**21,369**

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

6. Fee and commission income

Fee income	2,262	2,213	2,363	2,213
Insurance commissions	1,992	1,892	1,992	1,892
Other commissions	1,227	1,295	1,227	1,295
	5,481	**5,400**	**5,582**	**5,400**

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

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

Service	Nature and timing of satisfaction of performance obligations including significant payment terms	Revenue Recognition under AASB15 (applicable from 1 July 2018)
Transactional Banking Fees	Fee income comprises fixed transaction-based fees that are specified based on the nature and cost of the transaction. The obligation to pay the fee arises at the time of the service, when the transaction takes place, and these are billed to Members accounts monthly.	Revenue relating to transaction fees is recognised at a point in time when the transaction takes place.
Insurance Commissions	Commission is earned as a percentage of premiums for motor and household insurance policies arranged by the Group. The service obligations encompass all administration from inception, for the term of the policy, including renewal. The commissions are paid monthly provided the premiums have been received by the insurer.	An apportionment of commission is made to recognise that applying to the administration related component over time. The remaining component of commission, that relates to the underwriting of the policy at inception is recognised for a period of up to three years for which the Group is expected to receive commission.
Other Commissions	Commission is earned on transactions acquired through ATMs and on Visa Cards issued by the Group to its Members.	Revenue relating to other commission is recognised at a point in time when the transaction takes place.

Notes to the Financial Statements

for the financial year ended 30 June 2019

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000

7. Other operating income

Dividend income	47	95	47	95
Property rental income	99	89	99	89
Fair value gain – investment properties	-	17	-	17
Cost recoveries, contributions and loan/guarantee fees	362	399	362	399
Distribution from MTG PCU Trust	-	-	1,698	-
	508	**600**	**2,206**	**600**

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.

8. Operating expenses

Affiliation fees	204	191	204	191
Board committee and meetings	724	683	724	683
Commissions paid	313	289	313	289
Data processing & telecommunications	1,363	1,315	1,363	1,315
Debt collection costs	40	29	40	29
Depreciation & amortisation	920	877	920	877
Insurance	216	206	216	206
Legal and professional fees	544	339	462	339
(Gain)/Loss on disposal of property, plant and equipment	77	(62)	77	(62)
Marketing, advertising and printing	1,977	1,933	1,977	1,933
Office administration	484	479	484	479
Office occupancy	552	615	552	615
Operating lease rental expense	885	1,015	885	1,015
Salaries and on-costs	11,077	10,290	11,077	10,290
Training, travel and accommodation	664	533	664	533
Transaction costs	2,240	2,123	2,240	2,123
	22,280	**20,855**	**22,198**	**20,855**

The amount recognised as an expense for defined contribution plans is $1,121 thousand (2018: $1,058 thousand). The expense item is included within salaries, on-costs and Board committee and meetings.

9. Remuneration of auditors

Auditor of the Group:	$	$	$	$
Auditing of the financial statements	107,335	85,075	107,335	85,075
Other regulatory audit services	30,765	29,725	30,765	29,725
Taxation services	-	40,995	-	40,995
	138,100	**155,795**	**138,100**	**155,795**

The auditor of the Group is KPMG.

Notes to the Financial Statements

for the financial year ended 30 June 2019

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
10. Income tax				
(a) Income tax recognised in profit				
Current tax expense				
- in respect of the current year	2,260	1,892	2,260	1,892
- in relation to the current tax of prior year	(2)	(18)	(2)	(18)
Deferred tax expense				
- in respect of the current year	(179)	(7)	(179)	(7)
- in relation to the deferred tax of prior year	-	5	-	5
Total income tax expense	2,079	1,872	2,079	1,872
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	6,931	6,342	6,931	6,342
Income tax expense calculated at 30%	2,079	1,903	2,079	1,903
Permanent differences:				
Non-deductible expenses	16	10	16	10
Franked dividend received	(14)	(28)	(14)	(28)
	2,081	1,885	2,081	1,885
Over provision of tax in previous years	(2)	(13)	(2)	(13)
	2,079	**1,872**	**2,079**	**1,872**
(b) Current tax assets/(liabilities)				
Income tax payable	(715)	(246)	(715)	(246)
(c) Deferred tax assets				
Taxable and deductible temporary differences arise from the following:				
Depreciation on property, plant and equipment	189	227	189	227
Derivative liabilities	22	(2)	22	(2)
Employee entitlements	627	587	627	587
Investment properties - allowances	(37)	(32)	(37)	(32)
Gains on investments in equity instrument	(230)	(228)	(230)	(228)
Impairment allowances on loans	414	239	414	239
Land and buildings	(281)	(259)	(281)	(259)
Other deferred deductibles	(106)	-	(106)	-
Payables	284	190	284	190
Provisions for decommissioning	92	93	92	93
Unearned fees	49	26	49	26
	1,023	**841**	**1,023**	**841**
(d) Movement in deferred tax asset				
Deferred tax credited/(charged) to profit or loss	179	7	179	7
Deferred tax recognised	-	(53)	-	(53)
Prior year building adjustment	-	(6)	-	(6)
Deferred tax related to AASB 9 and AASB 15 transition	(14)	-	(14)	-
Deferred tax recognised in other comprehensive income	17	(232)	17	(232)
Increase/(decrease) in deferred tax asset	182	(284)	182	(284)
(e) Franking account				
Adjusted Franking account balance as at the end of financial year	31,374	30,345	31,374	30,345

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.

	Consolidated		Credit Union	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
11. Cash and bank balances				
Notes and coins	1,595	2,082	1,595	2,082
Bank balances	4,669	8,742	4,669	8,742
Bank balances – at call	21,831	30,956	15,630	30,956
	28,095	**41,780**	**21,894**	**41,780**

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

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

- Member deposits and withdrawals from savings and investment accounts;
- Loan advances and repayments to Members and to other ADIs;
- Borrowings; and
- Payables to other ADIs.

12. Receivables other

Accrued income	211	224	211	224
Contract receivable	510	-	510	-
Prepayments	62	59	62	59
Proceeds from sale of investment property	-	366	-	366
Settlement and clearing accounts	314	347	314	347
Trade receivables	89	132	89	132
	1,186	**1,128**	**1,186**	**1,128**

Notes to the Financial Statements

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

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
13. Loans and advances: to other ADIs				
Held at amortised cost:				
Cuscal Ltd	-	28,902	-	28,902
Other Banks	129,030	95,507	129,030	95,507
	129,030	**124,409**	**129,030**	**124,409**
Cuscal Ltd is an Authorised Deposit Taking Institution ("ADI")				
Analysis of receivables due from other ADIs:				
By maturity:				
0—1 month	-	4,993	-	4,993
1—3 months	3,003	23,909	3,003	23,909
3—12 months	19,066	10,067	19,066	10,067
1—5 years	106,961	85,440	106,961	85,440
	129,030	**124,409**	**129,030**	**124,409**
14. Loans and advances: to Members				
Held at amortised cost:				
Loans outstanding	962,834	859,325	962,834	859,325
Unearned fee income	(638)	(475)	(638)	(475)
Allowance for impairment (Note 15)	(903)	(408)	(903)	(408)
	961,293	**858,442**	**961,293**	**858,442**
Analysis of loans and advances (gross)				
By purpose				
Residential loans	786,913	730,218	786,913	730,218
Personal loans	62,516	62,442	62,516	62,442
Credit card advances	5,208	5,281	5,208	5,281
Commercial loans	108,197	61,384	108,197	61,384
	962,834	**859,325**	**962,834**	**859,325**
By security:				
Secured by mortgage	887,275	788,371	887,275	788,371
Secured other	67,775	62,634	67,775	62,634
Unsecured	7,784	8,320	7,784	8,320
	962,834	**859,325**	**962,834**	**859,325**
By maturity:				
Overdraft	20,283	22,049	20,283	22,049
0—3 months	21,176	11,940	21,176	11,940
3—12 months	54,528	37,643	54,528	37,643
1—5 years	128,554	115,715	128,554	115,715
Over 5 years	738,293	671,978	738,293	671,978
	962,834	**859,325**	**962,834**	**859,325**

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 $175.6 million (2018: $165.0 million) are covered by Lenders' Mortgage Insurance that reduces the Group's exposure to credit risk.

	Consolidated		Credit Union	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Concentration of loans and advances to groups of Members having similar characteristics are:				
Police	141,179	147,713	141,179	147,713
Nurses	20,209	22,210	20,209	22,210
Others	801,446	689,402	801,446	689,402
	962,834	**859,325**	**962,834**	**859,325**

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	26,663	13,796	26,663	13,796
Undrawn credit limits and re-draw	77,975	74,818	77,975	74,818
	104,638	**88,614**	**104,638**	**88,614**

Financial Guarantees have been issued on behalf of Members totalling $592 thousand (2018: $609 thousand). These Guarantees require the Credit Union to make payment to the holder thereof, should the Member fail to make payment to the holder. Loans secured by mortgages within South Australia comprise 87% (2018: 87%) of outstanding balances.

Securitised Loans

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

	2019
	$'000
Securitised loans	123,281
Unremitted collections at the end of the year	995
Borrowings	**124,276**

15. Allowance for impairment:

AASB 9 replaces the "incurred loss" model in AASB139 with a forward looking "expected credit loss" (ECL) model for calculating impairment of financial assets. This will require considerable judgement over how changes in economic factors affect ECLs which will be determined on a probability basis.

AASB 9 requires an impairment loss allowance to be recognised at an amount equal to:

Stage 1 - 12-month ECL – Performing loans. On origination, financial assets recognise a provision equivalent to 12 months ECL that is the credit losses expected to arise from defaults occurring over the next 12 months.

Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk (SICR) since origination are transferred to Stage 2 and recognise a provision equivalent to lifetime ECL. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer significant, the exposure is reclassified to Stage 1 and the provision reverts to 12 months ECL.

Stage 3 – Lifetime ECL – Non-performing loans. Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered credit impaired as well as assets that are considered to be in default but are not credit impaired.

Credit losses for financial assets in Stage 1 and Stage 2 are assessed collectively, whilst those in Stage 3 are subject to either collective or individual assessment of credit losses.

The ECL model applies to all financial assets measured at amortised cost, lease receivables, loan commitments and financial guarantees contracts not measured at FVTPL. Receivables other which is measured at amortised cost and financial guarantees held by the Group are considered to have low credit risk and therefore no allowance for impairment has been recognised.

Significant Increase in Credit Risk (SICR) is assessed by comparing the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination.

The Group's Credit Management Practices identify Members who are experiencing difficulty in meeting their loan repayment commitments at an early stage, either as a result of missed or erratic repayments or as a result of an application for restructuring. On identifying such loans or where loans are 30 days past due these are regarded as having a Significant Increase in Credit Risk.

The Group's credit portfolios are of a manageable size that allows for early credit management to be undertaken on an individual basis and therefore where a SICR has occurred the exposures are managed individually. The Group has elected that default will occur on the earlier of when and obligor is made bankrupt, or loan repayments are 90 days past due. This position is taken to ensure consistency for Financial and Regulatory Reporting purposes. On default an assessment of the collateral in place for the loans and the time for realisation thereof is undertaken to assess the amount of the required impairment allowance.

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

ECL measurement

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

Probability of default (PD) – The likelihood that a debtor will be unable to pay its obligations in full without realising a security of that debtor, or becoming 90 days overdue on an obligation or contractual commitment.

Exposure at default (EAD) – The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which the EAD calculation also takes into account the probability of unused limit being drawn down.

Loss given default (LGD) – The amount that is not expected to be recovered following default.

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

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

	Probability of Default (PD)	Loss Given Default (LGD)
Bank Deposits	0.00%	0%
Debt Securities	0.05%	45%
Residential Home Loans and undrawn loan commitments	0.29%	5%
Personal Loans and undrawn loan commitments	0.38%	81%
Business Banking Loans and undrawn loan commitments	0.48%	5%

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

Debt Securities – the Group has adopted a Probability of Default (PD) at the minimum prescribed by the Basel Committee for bank exposures being 0.05% (Para 68 Basel III: Finalising post-crisis reforms, December 2017). Similarly, the Loss Given Default (LGD) for claims on banks will be assigned at 45% (para 70).

Residential Home Loans – all residential loans are mortgage secured and over 80% loan-to-valuation ratios (LVR) have Lenders' Mortgage Insurance. The Group carried out an extensive review of arrears and defaulted loans for the period from 2014 to 2019 to determine PD. The absence of any statistical relevant loss data on the Group's portfolio made it difficult to arrive at LGD, therefore, the Group has used data sourced from Major Australian Banks.

Personal Loans – the Group has undertaken extensive review of credit losses incurred over the period from 2008-2019 in order to determine PD and LGD.

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

The following table represents the Group's total impairment provisions on debt securities, loans and advances and undrawn loan commitments by ECL stage as at 1 July 2018 and 30 June 2019 as well as movement during the year.

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	AASB 139 Specific Provision	AASB 139 Collective Provision	Stage 1 Collective Provision (*)	Stage 2 Collective Provision	Stage 3 Specific Provision	Total
	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2017 provision for doubtful debts	317	72	-	-	-	**389**
Total charged to income statement	16	3	-	-	-	**19**
30 June 2018 provision for doubtful debts	333	75	-	-	-	**408**
AASB 9 adjustment	(333)	(75)	443	1	423	**459**
Adjusted 1 July 2018	**-**	**-**	**443**	**1**	**423**	**867**
Stage 1 additional provision	-	-	29	-	-	**29**
Stage 2 additional provision	-	-	-	1	-	**1**
Stage 3 additional provision	-	-	-	-	6	**6**
Total charged to income statement	-	-	29	1	6	**36**
30 June 2019	**-**	**-**	**472**	**2**	**429**	**903**

(*) – Stage 1 provision includes $15 thousand representing the economic overlay that was estimated at 1 July 2018 and 30 June 2019 and $27 thousand of collective allowances as at 30 June 2019 in respect of Loans and advances to other ADIs.

Overall the total allowances for credit impairment increased by $36 thousand compared to the balance at 1 July 2018.

Stage 1 provisions increased by $29 thousand as a result of an increase in the balances invested in debt securities and uplift in all the Credit Union's loans and advances portfolios.

Stage 2 provisions increased with residential loan balances increasing by $89 thousand and personal loan balances increasing by $32 thousand.

Stage 3 provisions increased by $6 thousand as a result of $50 thousand increase in provisions for business banking loans offset by $44 thousand decrease in residential and personal loan provisions. The business banking loans reflected decrease in balances of $11 thousand, the balances on residential loans increased by $1.8 million and personal loans balances decreased by $50 thousand.

Overdue status of loans and advances to Members

	Stage 1	Stage 2	Stage 3	Total
	$'000	$'000	$'000	$'000
Current	947,290	-	-	**947,290**
Overdue 0 - 29 days	10,786	-	-	**10,786**
Overdue 30 - 59 days	-	773	-	**773**
Overdue 60 - 89 days	-	1,067	-	**1,067**
Overdue more than 90 days, defaulted	-	-	2,918	**2,918**
Loans and advances outstanding	**958,076**	**1,840**	**2,918**	**962,834**
Undrawn facilities	50,404	-	-	**50,404**
Allowance for impairment	(472)	(2)	(429)	**(903)**

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

Credit impairment allowances reflect expected credit losses (ECL) measured using three-stage approach. The following explains how changes in the gross carrying amounts of financial assets during the 2019 financial year have contributed to the changes in the allowance for credit losses for the Group under ECL.

Movement on loan balances that have experienced SICR (Stage 2 and credit impaired Stage 3) is presented in the table below.

	2019 Loan Balances
	$'000
Balances at 1 July 2018	2,880
Increase in credit risk and/or credit impaired	3,861
Transferred to performing (Stage 1)	(1,947)
Decrease in balances	(36)
Loan and advances in Stage 2 and 3 at 30 June 2019	**4,758**

The loans referred to on the previous page are calculated having regard to collateral. Loans amounting to $1,594 thousand are highly collateralised. The contractual amount outstanding on financial assets that were written off during the year ended 30 June 2019 and that are still subject to enforcement activity is $71 thousand.

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Impairment loss recognised in the profit or loss:				
Recoveries on loans previously written off	52	41	52	41
Provisions for loan impairment - net movement	(36)	(19)	(36)	(19)
Loans written off during the year as uncollectible	(108)	(194)	(108)	(194)
Total impairment charge to profit and loss	**(92)**	**(172)**	**(92)**	**(172)**

16. Investment properties

Measured at fair value:				
Cost of Land with dwellings thereon	760	760	760	760
Net loss from fair value adjustments	(33)	(33)	(33)	(33)
	727	**727**	**727**	**727**

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 2019 was arrived at based on a review of property indexes for the location of these properties. 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 23(f)).

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					
	2019			2018		
	Cost/Fair Value $'000	Accumulated Depreciation $'000	Carrying Value $'000	Cost/Fair Value $'000	Accumulated Depreciation $'000	Carrying Value $'000
Freehold land & buildings-fair value	9,472	(209)	9,263	9,295	(295)	9,000
Leasehold improvements-cost	1,362	(1,079)	283	1,573	(1,223)	350
Plant and equipment-cost	4,156	(2,756)	1,400	4,161	(2,705)	1,456
Total	**14,990**	**(4,044)**	**10,946**	**15,029**	**(4,223)**	**10,806**

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 2019 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 23(f). Had the Group's freehold land and buildings been measured on a historical cost basis, their carrying amount would have been $4.4 million (2018: $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	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Measured at amortised cost:				
Members' deposits	1,039,600	953,265	1,039,600	953,265
Redeemable preference shares	390	396	390	396
	1,039,990	**953,661**	**1,039,990**	**953,661**
Concentration of deposits				
Police	102,134	96,595	102,134	96,595
Nurses	54,117	47,783	54,117	47,783
Others	883,739	809,283	883,739	809,283
	1,039,990	**953,661**	**1,039,990**	**953,661**

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 78% (2018: 76%) of all deposits.

19. Payables other and Provisions

Measured at amortised cost:				
Trade payables and accruals	2,809	1,747	2,809	1,747
Settlement and clearing accounts	1,018	580	1,018	580
Total Payables other	**3,827**	**2,327**	**3,827**	**2,327**
Employee entitlements	2,091	1,956	2,091	1,956
Decommissioning commitments	307	310	307	310
Total Provisions	**2,398**	**2,266**	**2,398**	**2,266**

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.

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	Capital Redemption Reserve	General Reserve	General Reserve for Credit Losses	Revaluation Reserve	Cash Flow Hedging Reserve	Total Reserves
Consolidated	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 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 Ltd shares	-	-	-	(64)	-	**(64)**
Income tax relating to loss arising from revaluation of Cuscal Ltd 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**
Transfer from retained earnings	36	-	(1,401)	-	-	**(1,365)**
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	6	-	**6**
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(2)	-	**(2)**
Loss arising on changes in fair value of interest rate swaps	-	-	-	-	(62)	**(62)**
Deferred tax asset arising on interest rate swaps	-	-	-	-	19	**19**
Balance at 30 June 2019	**567**	**11,748**	**970**	**4,455**	**(39)**	**17,701**
Credit Union						
Balance at 1 July 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 Ltd shares	-	-	-	(64)	-	**(64)**
Income tax relating to loss arising from revaluation of Cuscal Ltd 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**
Transfer from retained earnings	36	-	(1,401)	-	-	**(1,365)**
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	6	-	**6**
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(2)	-	**(2)**
Loss arising on changes in fair value of interest rate swaps	-	-	-	-	(62)	**(62)**
Deferred tax asset arising on interest rate swaps	-	-	-	-	19	**19**
Balance at 30 June 2019	**567**	**11,748**	**970**	**4,455**	**(39)**	**17,701**

Notes to the Financial Statements

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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:

	Consolidated		Credit Union	
	2019 %	2018 %	2019 $	2018 $
Parent Entity				
Police Credit Union Ltd	-	-	-	-
Controlled entity				
PCU Services Pty Ltd	100	100	1	1
Ian Berry Insurance Services Pty Ltd	100	100	1	1
MTG PCU Trust Repo Series No.1	100	-	20	-
			22	**2**

c) Key Management Personnel

Key Management Personnel have been defined as: Police Credit Union Ltd board of nine Directors and eight 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	
	2019 $	2018 $
Key management personnel compensation		
Short-term employee benefits - including superannuation guarantee levy	2,529,330	2,311,984
Other long-term benefits - accruals for Long Service Leave	74,785	35,170
	2,604,115	**2,347,154**

Transactions conducted on accounts of key management personnel 2019	Transaction Accounts $	Investment Accounts $	Loans Accounts $
Balance at beginning of year *	(711,807)	(737,128)	3,166,985
Loans advanced	-	-	602,635
Deposits / repayments	(6,689,533)	(127,000)	(1,156,049)
Withdrawals	6,345,737	491,031	-
Interest paid	(12,644)	(18,975)	-
Interest charged/(received)	2,391	(3,714)	141,654
Net balance at end of year	**(1,065,856)**	**(395,785)**	**2,755,227**
Year end balances represented by:			
Deposit balances	(1,024,831)	(395,785)	-
Overdraft / loan balances	(41,025)	-	2,755,227
Net balance at end of year	**(1,065,856)**	**(395,785)**	**2,755,227**

Notes to the Financial Statements

for the financial year ended 30 June 2019

Transactions conducted on accounts of key management personnel 2018	Transaction Accounts $	Investment Accounts $	Loans Accounts $
Balance at beginning of year *	(499,106)	(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/(received)	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**

* 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.

Transactions within the wholly-owned group:	2019 $'000
The equitable right to loans originated by the Credit Union were sold to the MTG PCU Trust during the year giving rise to the following intra-group transactions to which the Credit Union is a party:	
Sale of loans	141,516
Receipt of custodian and service fee	101
Payment of collections or loans	22,089
Payment for interest offset benefits	323
Receipt of note interest	2,599
Receipt of distributions from MTG PCU Trust	1,697

22. Operating leases

	Consolidated 2019 $'000	Consolidated 2018 $'000	Credit Union 2019 $'000	Credit Union 2018 $'000
Future minimum lease payments:				
0—1 year	741	1,098	741	1,098
1—2 years	729	377	729	377
2—5 years	1,368	652	1,368	652
Total	**2,838**	**2,127**	**2,838**	**2,127**

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 repricing characteristics of banking assets and liabilities.

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

The repricing gaps for the Group's banking portfolios are shown in the table below. 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 $1.15 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 $1.217 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 $'000	>3—6 months $'000	>6 months—1 year $'000	>1—3 years $'000	Over 3 years $'000
2019					
Interest rate sensitivity gap: asset / (liability)	262,843	(113,663)	(164,647)	96,516	(1,724)
Cumulative interest rate sensitivity gap	262,843	149,180	(15,467)	81,049	79,325
% of assets	23.2%	13.1%	(1.4%)	7.1%	7.0%
2018					
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%

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 inflow/(outflow) on Interest rate swaps	Less than 1 month $'000	>1—3 months $'000	>3 months —1 year $'000	>1—3 years $'000	Over 3 years $'000	Total $'000
2019	(12)	(9)	(52)	-	-	(73)
2018	14	(28)	6	14	-	6

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 on the following page.

Consolidated and Credit Union	Weighted average fixed payment rate		Notional principal		Fair value	
Expiry date of contracts	**2019 %**	**2018 %**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Less than 1 year	1.91	2.15	38,000	58,000	(73)	(47)
1—2 years	-	1.91	-	38,000	-	53
2—3 years	-	-	-	-	-	-
Total			**38,000**	**96,000**	**(73)**	**6**

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.

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; and
- The Credit Union has established a self-securitisation program that allows it to access up to $120 million of an RBA Repo security during liquidity crisis.

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

Maturity analysis of non-derivative financial liabilities:

Cash flows payable in	Less than 1 month $'000	1—3 months $'000	>3 months—1 year $'000	>1—3 years $'000	Over 3 years $'000	Future interest $'000	Total $'000
Credit Union 2019							
Deposits	471,128	131,070	395,339	45,275	6,697	(9,519)	1,039,990
Payables due to other ADIs	3,522	1,021	257	-	-	(13)	4,787
Borrowings	-	-	-	-	124,276	-	124,276
Payables (other)	3,827	-	-	-	-	-	3,827
Total Credit Union	**478,477**	**132,091**	**395,596**	**45,275**	**130,973**	**(9,532)**	**1,172,880**
Consolidated 2019							
Deposits	471,128	131,070	395,339	45,275	6,697	(9,519)	1,039,990
Payables due to other ADIs	3,522	1,021	257	-	-	(13)	4,787
Payables (other)	3,827	-	-	-	-	-	3,827
Total Consolidated	**478,477**	**132,091**	**395,596**	**45,275**	**6,697**	**(9,532)**	**1,048,604**
Consolidated and Credit Union 2018							
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**

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.

The maturity analysis of derivative financial instruments is disclosed in Note 23(d).

Notes to the Financial Statements

for the financial year ended 30 June 2019

f) Fair values of financial instruments

Financial assets: carried at fair value

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

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

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:

	2019 (Consolidated)		2019 (Credit Union)		2018 (Consolidated and Credit Union)		
	Carrying amount $'000	**Fair value $'000**	**Carrying amount $'000**	**Fair value $'000**	**Carrying amount $'000**	**Fair value $'000**	**Fair value hierarchy**
Financial assets							
Cash and bank balances	28,095	28,095	21,894	21,894	41,780	41,780	Level 1
Loans and advances: to other ADIs	129,030	129,184	129,030	129,184	124,409	123,956	Level 2
Loans and advances: to Members	961,293	955,210	961,293	955,210	858,442	852,451	Level 3
Cuscal Ltd shares	1,903	1,903	1,903	1,903	1,897	1,897	Level 3
Notes MTG PCU Trust Repo Series No.1	-	-	130,477	130,477	-	-	Level 2
Receivables other	1,186	1,186	1,186	1,186	1,128	1,128	Level 1
Derivative assets	-	-	-	-	6	6	Level 2
Total Financial Assets	**1,121,507**	**1,115,578**	**1,245,783**	**1,239,854**	**1,027,662**	**1,021,218**	
Financial liabilities							
Deposits	1,039,990	1,041,309	1,039,990	1,041,309	953,661	959,220	Level 2
Payables due to other ADIs	4,787	4,789	4,787	4,789	3,765	3,767	Level 2
Borrowings	-	-	124,276	124,276	-	-	Level 2
Payables other	3,827	3,827	3,827	3,827	2,327	2,327	Level 1
Derivative liabilities	73	73	73	73	-	-	Level 2
Total Financial Liabilities	**1,048,677**	**1,049,998**	**1,172,953**	**1,174,274**	**959,753**	**965,314**	

g) Investment securities

	Consolidated		Credit Union	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Cuscal Ltd shares	1,903	1,897	1,903	1,897
Notes MTG PCU Trust Repo Series No.1	-	-	130,477	-
	1,903	**1,897**	**132,380**	**1,897**

The Group's investment in unquoted equity investment, Cuscal Ltd shares, is stated at fair value and is classified as Level 3 in the fair value hierarchy. The valuation of Cuscal Ltd 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 Ltd shares is reflected in the other comprehensive income.

Composition of MTG PCU Trust Repo Series No.1 is represented by $120 million of Class A notes and $10 million of Class B notes. The Class A notes are Repo-eligible.

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 14.04% (2018: 14.68%). The Credit Union's capital adequacy at year-end amounted to 14.04% (2018: 14.66%).

Details of the components of Total Capital and risk-weighted assets are set out in the table on the 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 2019

	Consolidated		Credit Union	
	2019	2018	2019	2018
Common Equity Tier 1 Capital ("CETI")	**$'000**	**$'000**	**$'000**	**$'000**
Retained Earnings	65,613	59,364	65,613	59,364
Accumulated other comprehensive income ("OCI") and reserves				
Total Accumulated OCI and reserves (*)	12,315	12,279	12,315	12,279
Revaluation reserves	4,416	4,455	4,416	4,455
Accumulated OCI and reserves	16,731	16,734	16,731	16,734
Deferred fee income	638	-	638	-
	17,369	**16,734**	**17,369**	**16,734**
CETI Capital before regulatory adjustments	82,982	76,098	82,982	76,098
Regulatory Adjustments:				
Other Intangibles	901	698	901	698
Cash-flow hedge reserve	(56)	6	(56)	6
Investments in other ADIs - Cuscal Ltd	1,903	1,897	1,903	1,897
DTA arising from temporary differences	1,023	841	1,023	841
Total Regulatory Adjustments to CETI	**3,771**	**3,442**	**3,771**	**3,442**
Common Equity Tier 1 Capital	79,211	72,656	79,211	72,656
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	**79,211**	**72,656**	**79,211**	**72,656**
General reserve for credit losses	970	2,371	970	2,371
Tier 2 Capital	**970**	**2,371**	**970**	**2,371**
Total Capital	**80,181**	**75,027**	**80,181**	**75,027**
Total Risk-Weighted Assets based on APRA standards	**571,146**	**510,960**	**571,146**	**511,855**
Capital Ratios and Buffers				
Common Equity Tier 1 (as a % of risk-weighted assets)	13.87%	14.22%	13.87%	14.19%
Tier 1 (as a % of risk-weighted assets)	13.87%	14.22%	13.87%	14.19%
Total Capital (as a % of risk-weighted assets)	14.04%	14.68%	14.04%	14.66%
Buffer Requirement	7.00%	7.00%	7.00%	7.00%
Of which: APRA prescribed minimum CET1	4.50%	4.50%	4.50%	4.50%
Of which: capital conservation buffer requirement	2.50%	2.50%	2.50%	2.50%
Of which: ADI Specific countercyclical buffer requirement	0.00%	0.00%	0.00%	0.00%
Common Equity Tier 1 available to meet buffers	6.87%	7.22%	6.87%	7.19%

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

Total Accumulated OCI and reserves	17,701	19,105	17,701	19,105
Revaluation reserves	(4,416)	(4,455)	(4,416)	(4,455)
General reserve for credit losses	(970)	(2,371)	(970)	(2,371)
Total Accumulated OCI and reserves for capital	**12,315**	**12,279**	**12,315**	**12,279**

25. Significant Alliances

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

Directors' Declaration

for the financial year ended 30 June 2019

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, 25 September 2019

KPMG

Independent Auditor's Report

To the shareholders of Police Credit Union Limited

Opinions

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's and Company's financial position as at 30 June 2019 and of its 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:

- Statement of financial position as at 30 June 2019;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinions

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.

KPMG

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 opinions.

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

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

Darren Ball
Partner

Adelaide

25 September 2019

Member Testimonials

'(Police Credit Union) plays an integral role in my daily life with easy online banking, great interest rates on both investment and owner occupier loans, and security in our savings account'.

Elyse, Greenwith SA

'Excellent communication. Always finding ways to help with difficult financial situations and I get to speak to a staff member straight away. Infinitely better than the big banks'.

Andrew, Craigmore SA

'Friendly professional service by committed staff who manage a range of products and services that suit my needs'.

Peter, Henley Beach SA

'Have been a Member for 33 years and have never been tempted to change. Why fix something if it isn't broken. Great service - love Police Credit Union'.

Wendy, Sellicks Beach SA

'Police Credit Union has been very reliable and responsible with regard to money and insurance dealings for me over 40 years. I have the satisfaction of knowing that they are always going to be "in my corner" and able to serve me'.

Edward, Mount Barker SA

'I have used their services for 22 years and find the staff friendly and approachable. They have always helped me financially and I have recommended them several times. I wouldn't bank with anyone else'.

Stephanie, Glencoe SA

'Police Credit Union feels like part of my family, the staff are committed to making my banking experience important to them'.

Elizabeth, Marion SA

'Staff are approachable, friendly and helpful and have local knowledge which helps them understand our needs'.

Graham, Yorketown SA

Source: Police Credit Union Member Survey June 2019

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AFSL/Australian Credit Licence 238991

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