2020

50 years strong

ANNUAL REPORT

Police Credit Union
Better Banking

50 YEARS STRONG

Proud Major Sponsors of





Supporting **Better Communities**

Major Business Partners


Auditors

KPMG
151 Pirie St
Adelaide SA 5000

Solicitors

Piper Alderman
16/70 Franklin St
Adelaide SA 5000

Chairman's and CEO's Report

Success and resilience shines through

In what has been a year of many challenges for our communities, Police Credit Union not only delivered another strong year of financial results but also reinforced its reputation of being there for our Members when they need it most. As well as another near-record Member Satisfaction rating of 92.9% we achieved a profit after tax of $5.2 million, 6.6% ahead of the previous year, and our total assets increased 3.4% to more than $1.17 billion for the year ended 30 June 2020.

Such strong, consistent results were achieved through prudent financial management, highly competitive and market-leading products and services all delivered by a sector-leading workforce committed to customer-service excellence. Our organisational resilience planning meant that when Members and the broader community had their resolve put to the test by devastating bushfires, economic uncertainty, international turmoil and a global pandemic, we were ready to offer whatever help was needed.

Whilst the year was earmarked to be a year-long celebration of our 50-year anniversary it evolved into a far more focussed effort in supporting Members through some of the hardest periods of their lives. It was a challenge that we readily accepted because when times are tough, people really see the mettle of their financial provider.

Helping people has always been part of our DNA. Right from 2 February 1970, when we opened our doors for the first time, it was because a small group of police officers wanted to help some of their financially struggling colleagues pay unexpected bills, or have enough credit to cover the cost of a new car, household items or other essential purchases.

Since those humble beginnings, we've grown to become South Australia's most recognised credit union and forged an enviable reputation as the trusted financial partner of choice for police officers, nurses, paramedics and other front-line responders. We now have seven branches across South Australia and Northern Territory with over 40,000 Members and insurance customers. We've proudly supported Members throughout the economic recessions in the early 1980s and 90s, the Global Financial Crisis of 2008, and the 2020 financial year was yet another opportunity to demonstrate our experience and commitment.

Operationally, COVID-19 has seen your credit union respond in an absolutely exemplary way. At a time when others were closing branches, turning their backs on regional communities, reducing staff numbers and limiting service options, we worked hard to be there for our Members by ensuring that all our staff hours were retained, with increased communication and expanded customer services.

By the time the World Health Organisation declared a global pandemic in March 2020, we had already proactively launched our Pandemic Response Plan the month prior. Our plan put us well ahead of the minimum requirements imposed by State and Federal governments, to enable our branches to remain safe and accessible. Comprehensive hygiene protocols, mandatory temperature checks and advanced thermal imaging machines installed across all Police Credit Union buildings ensured the wellbeing of our employees and Members. In addition, restrictions were placed on the number of customers permitted to enter branches at any one time, with appropriate branch signage and floor markers ensuring social distancing. As well, additional protective screens were installed for customer facing employees and personal protective equipment distributed across our workforce.

We implemented additional Mental Health and Physical Health Online Apps for our staff, Mental Health and Mindfulness Development Programs through the Employee Assistance Program Provider and wellbeing check-ins. Another fast-tracked initiative was early implementation of Flu vaccinations for our workforce, while all corporate travel and face to face business development activity was immediately ceased.

Our focus was not only on the physical health and safety of our Members but also their financial wellbeing. Every action Police Credit Union has taken, and every decision made, has been in support of adhering to the key tenets of our Pandemic Response approach:

- the protection of the health, safety and wellbeing of our employees, Members, and community; and
- the protection of the financial and information assets of the Credit Union and our Members.

As many people started exercising social restrictions and limiting their use of cash, our Online Banking platforms saw a huge increase in access with Members safely accessing their money and securely banking using contactless options such as Fast Payments via Online Banking, our Banking App and our digital wallet payment options such as Apple Pay, Samsung Pay and Google Pay.

Our team, which included over 32% of employees who transitioned to work from home or relocated to our Disaster Recovery site, rapidly adapted to audio and video conferencing to help Members with their transactional banking, loan applications, insurance policies, new term deposits and savings accounts. In addition to branches remaining open during the pandemic, we increased operating hours for the Contact Centre, and swiftly introduced a new client authentication process to make it easier and more secure for Members to be identified over the phone and remotely. Carefully planned and enhanced technology, coupled with robust cyber security controls resulted in zero material outages or deterioration in service levels during the disrupted work arrangements.

...we've grown to become South Australia's most recognised credit union and forged an enviable reputation as the trusted financial partner of choice...

A major focus during the period was working with borrowers experiencing financial difficulty to understand what options were available to them. A 'loan repayment pause' option for all mortgage borrowers was introduced to take some pressure off the household budget by deferring scheduled loan repayments for up to six months and our team worked with borrowers on their individual payment plans. We have been overwhelmed by the messages of 'thanks' from many of the 288 borrowers we helped, representing a total value of COVID-19 related repayment deferral and hardship assistance, of $74.6 million.

Members who would normally visit a branch were helped with transactions or other needs over the phone. Our senior Members were offered a fee free bill payment service by waiving the normal manual service fee. This allowed them to call us from the safety and comfort of their own homes and have our staff assist by paying bills on their behalf using BPAY. This has now become a mainstay of our services available to seniors, adding to our 'View only access' option for Online Banking and the Banking App. These options allow Members to reduce their need to visit a branch in person, whilst continuing to bank with confidence.

COVID-19 Pandemic

The financial impact of the pandemic to all businesses, including Police Credit Union, has been significant. The high level of preparedness of Police Credit Union in terms of balance sheet and operational resilience, already in place leading up to these events cannot be underestimated. Careful strategic and prudent balance sheet management, continued and disciplined focus on building scale and efficiency, with well-planned and documented response and recovery frameworks ensured that the organisation was well-prepared to deal with the current events as they unfolded.

The forward-thinking ability of the organisation to take a measured approach in late 2019 to contain aspirations of above-system growth given the already prevailing volatile economic headwinds, meant a bold shift at that time into a capital preservation mode. Coupled with the advanced recognition of the imminent threat that the Pandemic posed (as early as January 2020), augured-well for Police Credit Union to confidently activate and implement critical response initiatives. These initiatives ensured that the safety and welfare of employees, Members and the public were prioritised at the highest level, whilst structural, operational and strategic measures were adapted and deployed to ensure operational capability and integrity were preserved or enhanced. This has resulted in Police Credit Union successfully adapting to a "new-normal, business as usual" mode.

The financial position of Police Credit Union remains very strong, including the level of our liquidity and capital. In the pandemic's early stages, Police Credit Union undertook detailed scenario modelling and stress-testing on the potential outcomes based on best, likely and worst-case scenarios, which guided our response to the financial impact of the pandemic. Responses included more than doubling the self-securitisation Repurchase Agreement with the Reserve Bank of Australia thereby ensuring significant access to emergency liquidity if required.

In addition, Police Credit Union availed itself of the entitlement to its allocation of the $90 billion RBA's Term Funding Facility, which represented $28.8 million in wholesale funding, receiving this on 6 April 2020. Throughout the period, we carefully managed deposit and loan interest rates to ensure a fair balance between borrower and depositor rates, resulting in a sustained competitive position for our Members.

Key financial results

While a large part of this reporting period was anything but 'business as usual', the Police Credit Union team remained absolutely focussed on achieving strong financial year performance. Those efforts have once again delivered strong results across all financial metrics and one that the entire Police Credit Union team should be justifiably proud of. The following table presents a summary of the key metrics reflecting the financial performance outcomes of Police Credit Union for the period to 30 June 2020. The results below meet or exceed our long-term strategic targets:

Summary of Financial Performance Metrics

	30 June 2019	30 June 2020	Strategic Target Achieved
Profit After Tax	$4.852 million	$5.173 million	✓
Group Assets	$1.135 billion	$1.174 billion	✓
Growth in Total Assets	9.10%	3.42%	✓
Return on Assets	0.44%	0.45%	✓
Return on Equity	5.98%	6.01%	✓
Expenses to Income	76.04%	70.64%	✓
Expenses to Assets	2.05%	1.88%	✓
Capital Adequacy	14.04%	14.00%	✓

Looking more closely at our financial performance we can report:

- **Net Interest Income** increased by 9.1% during the year. Throughout the period we continued to provide market-leading interest rates across home, investment, and personal lending products. Cost of funding remained relatively high as Police Credit Union continued to pass on market leading deposit rates to investors. Average net interest margin concluded the period at a stable 2.20%, representing a slight improvement on the previous period.

- **Non-Interest Income** decreased overall by 10.8% to $5.34 million, reflecting a continued commitment to contain fees and charges at, or below, cost-recovery. This decrease also reflects a significant decline in transactional-related revenue during the period April to June 2020, directly attributable to the impact of the COVID-19 Pandemic on consumer spending activity. Insurance commissions for the period also fell sharply by 15.13%, noting that Police Credit Union managed over 27,000 insurance policies, representing gross written premiums of almost $12 million at year end.
- **Impairment Losses** on loans increased to $1.7 million, compared to $92,000 in the prior period. Police Credit Union has extensively considered the long-term implications of the COVID-19 Pandemic on the economy and the impact on the ability of some borrowers to repay loans. The increase in impairment losses on loans and advances is substantially attributable to an additional impairment provision of $1.52 million to allow for possible COVID-19 credit-related losses and based on emerging evidence of borrower repayment distress.

  Police Credit Union continues to maintain sound and organic loan origination practices, conservative risk settings, strong compliance to policy frameworks and careful credit portfolio management, which has resulted in continued strong resilience in its lending portfolio, which comprises 81% of its balance sheet assets.
- **Operating Expenses** decreased by 2.4% during the financial period and are attributed to numerous cost containment measures deployed, despite the credit union incurring over $200,000 in additional direct COVID-19 Pandemic Response-related costs. Other indirect COVID-19 costs relating to doubling and maintaining the self-securitisation facility and the cost in holding excess and additional high-quality liquid assets, are not included in this analysis. Salaries and On Costs reduced by 5.35% over the period, largely due to an inability to actively recruit for vacant positions during the COVID-19 Pandemic shutdown, noting that Police Credit Union remained open throughout the Pandemic and quickly moved to fill vacant positions once it became practical to do so.

  Operating efficiency, as measured by the operating cost to operating income ratio, closed the year at an improved 70.64%. Asset efficiency, as measured by operating cost to average total assets ratio, also improved to 1.88% for the period.
- **Total Assets** grew by 3.4% to $1.174 billion at year end. Our loans portfolio comprised 80% residential mortgage-secured, 7% personal and overdrafts, and 13% commercial and business loans. During the period we advanced $257.4 million in loans to Members, comprising 2,426 loans in total. This included $34.2 million in personal loans and $145.6 million in home and investment loans. Our Business Banking team also achieved strong growth results during the year, with $77.5 million loan disbursements that grew our Business Banking loan portfolio to more than $120 million, including loan facilities which funded the construction of 155 new houses and 45 land allotments.
- **Total Liabilities** increased by 3.2% to $1.09 billion for the period. Deposits comprised 96% of total liabilities and remained relatively stable for the reporting period.
- **Total Equity (Member Reserves)** increased by 6.6% for the period to $88.8 million and resulted in the achievement of a Capital Adequacy Ratio of 14%, which is well above the regulatory minimum.

Some of the financial performance information presented above is able to be compared to industry comparisons. Comparable key financial ratios released by the Australian Prudential Regulation Authority (APRA) are presented below, which showcase Police Credit Union's positive performance as compared to the industry.

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 presented. These indicators provide critical insight into the key organisational value-drivers that reflect important engagement, risk, resilience, and cultural attributes of the business. The strategic balanced scorecard approach, in place since the year 2000, facilitates and measures achievement and success across non-financial measures summarised in the table opposite.

Credit Union and Mutual Banks' performance ratios

	Year End June 2020 Credit Unions*	Year End June 2020 Mutual Banks*	Police Credit Union June 2020 Actual	Favourable Compared to Industry Averages
Net interest income to assets	2.0%	1.9%	2.2%	✓
Operating expenses to assets	2.1%	1.8%	1.9%	✓
Return on assets (after tax)	0.3%	0.4%	0.5%	✓
Return on equity (after tax)	3.3%	4.9%	6.0%	✓
Cost to income	81.9%	78.8%	70.6%	✓
Growth in total assets	-9.5%	10.4%	3.4%	✓

*Source: APRA – Statistics, quarterly authorised deposit-taking institution performance June 2020 (released 8 September 2020)

"It was especially humbling to recognise the loyalty of our original founding Members..."

Summary of Non-Financial Performance Metrics

	30 June 2019	30 June 2020	Strategic Target Achieved
Member Satisfaction Rating	93.1%	92.9%	✓
Products per Member	5.20	5.25	✓
Per Member Value for the 12-month period	$271	$241	✓
Employee Satisfaction Index	90.0%	90.3%	✓
People-based Culture Index	94.3	91.5	✓
Risk-based Culture Index	87.0	94.7	✓
Organisational Resilience Index	90.0	90.5	✓
Innovation Index	91.0	90.0	✓
Average Significant Risk Score	34.7	36.5	✓
Annual Community Investment Spend ($'000)	$556	$552	✓
Community Engagement Index	96.0	92.0	✓
Carbon Emissions Footprint	zero	zero	✓

50-year celebrations

We celebrated many highlights throughout the year as part of our 50-year milestone. It was especially humbling to recognise the loyalty of our original founding Members who joined us when we first opened our doors at the Police Club, our original birthplace. Aligned with our official birthday on 2 February 2020, we collaborated with the Police Association of South Australia to have a special visual display that showcased our journey of success. In addition to a special 50th birthday logo, we also unveiled a commemorative video that highlighted Police Credit Union's many key achievements, with cameo guest appearances from past and present Board Members and CEOs.

We officially cut the ribbon at our new branch at the $300 million Gateway Shopping Centre in Palmerston, in the heart of the Northern Territory's fastest growing suburb. This not only showed our enduring commitment to the local NT community but has also delivered a face-to-face superior service experience for Members that is second to none.

A major highlight of our 50th year included the recognition from a third-party comparison site of the true value that our loan products represent. Two of our loan products scored gold at the 2019 Mozo Expert Choice Awards by winning the Green Personal Loan and Car Loan award categories. The Green Personal Loan Award category recognises personal loans designed to suit eco-conscious Australians with the lowest rates and fees, while our Solar Eco Loan is perfect for people wanting to reduce their energy costs by taking advantage of a variable rate personal loan to purchase and install solar panels, home battery systems and solar water heaters.

Our People

Our Employee Satisfaction rating continued to track above target at 90.3%, along with Employee Engagement surpassing all expectations at 92.6%. As an employer of choice, it is important for Police Credit Union to attract and retain the very best staff and we were pleased to achieve an Employee Retention Index rating above 90%. Although only a relatively small number of vacancies were available during the year, strong market interest was certainly experienced, with 18 new employees selected out of a total field of 4,865 applicants.

During the year we welcomed a strengthened focus on diversity and inclusion through our partnership with Barkuma. Our employee Jackson Stringer celebrated his own personal milestone of three years as part of our team, while our youth engagement program welcomed a new trainee. We maintained our continued compliance with the Workplace Gender Equality Agency, with women representing 63% of our workplace.

Operating within a strict regulatory framework means we constantly monitor and track our performance against required industry standards. During the period we implemented a new Learning Management System for compliance training which resulted in 100% of our workforce successfully completing their compliance and regulatory training.

Our continued efforts to deliver exemplary customer service and sustain high performance team capability included the development of enhanced training and coaching programs, as well as the implementation of a new and improved online Annual Performance Review system.

The rollout of new Health & Wellbeing programs during the pandemic proved timely, with employees taking advantage of regular mindfulness sessions focused on improving personal and group resilience, presence and focus, happiness and wellbeing – this underpinned achieving a Wellness Index rating of 96% for the period, well above our target of 80%.

"It was a challenge that we readily accepted because when times are tough, people really see the mettle of their financial provider".

With Information Technology being more important than ever because of a dislocated workforce and restricted non-essential travel, the rollout of Apple iPads to all employees as part of an employee innovation initiative proved instrumental in enabling seamless customer service delivery.

Externally, the implementation of a Secure Messaging and Alert Notification platform for Members via our Banking App and Online Banking, provided additional secure banking and communications options for Members. We also upgraded in-house client authentication platforms, such as introducing SMS one-time passwords, to support stronger authentication and enhance customer identification security protocols.

Community Investment and Environmental Support

During the period, Police Credit Union contributed over $552,000 to local communities and organisations, representing a cumulative Community Investment Spend of more than $5 million since 2006. Even with community engagement activities slowing in the local community due to the pandemic we were still able to exceed our Community Engagement Index measure, reflecting our ongoing commitment to participation, inclusion, and development of a positive influence in the community. We also retained our track record on our strategic environmental commitment to remain a carbon neutral entity.

Despite COVID-19 putting an abrupt end to sporting activities, we continued to support those communities through our sponsorship of the Adelaide Footy League which was able to complete a condensed playing season.

We were particularly proud to strengthen our long-standing connection with South Australia Police by renewing our partnership with Crime Stoppers South Australia. Since launching our commitment as a major funding partner in 2017, Crime Stoppers SA has taken nearly 63,500 calls and almost 13,000 online reports about unsolved crime and suspicious activity. This has resulted in more than 2,100 apprehensions for a range of crimes and 264 illegal firearms taken out of the hands of criminals.

We have also entered into a major partnership with the Country Fire Service (CFS) Foundation in recognition of the heroic acts of bravery shown by SA CFS volunteer firefighters during a particularly tough fire danger season, which included major blazes across South Australia. As an organisation with grassroots in the emergency services, it made sense to get behind an organisation that provides immediate financial assistance and care to CFS volunteer firefighters and their families, who experience suffering in the line of active duty.

We also expressed thanks to the many police officers working in the community and on the front line during the pandemic, including border control duties, by supplying Nespresso coffee machines for police social clubs so they could enjoy a well-deserved break from their frontline duties.

To mark International Nurse's Day on 12 May, we recognised our nursing community with the delivery of over 700 handmade cookies to the Royal Adelaide Hospital - a small gesture of thanks for the sacrifices made by our healthcare workers.

As a further commitment to our police, health care workers and emergency services Members, we rejuvenated our Platinum package by adding long-term value with package fees removed across all loan products, up to 0.25% additional loan interest reductions and additional service resources. This renewed Platinum package is just one of many ways we have been able to reward the loyalty of our core bond Members.

Corporate Governance

As an Authorised Deposit-Taking Institution (ADI), Police Credit Union, although customer-owned, is regulated in the same way as publicly listed banks. We are required to meet the same strict and legally enforceable standards under the Banking Act within the jurisdiction of the Australian Prudential Regulation Authority (APRA). Although APRA's safety and capital rules give customers added peace of mind, with deposits up to $250,000 being backed by the Australian Government under the Government Guarantee scheme, the organisation's continual achievement of sustainable long-term financial outcomes, should give our Members the ultimate confidence. Our financial security and success have allowed us to achieve growth outcomes despite a contracted environment, continually build shareholder value, and maintain our investment in innovation and our people. All these outcomes, when coupled with our premium fraud detection technology, form a safe and secure banking environment for our Members.

In the face of challenges, the Police Credit Union Board and management team remain steadfast in our commitment to ongoing best-practice governance oversight and remain driven to responsibly and prudently manage our fundamental responsibilities to customer-shareholders and the broader community.

"...Police Credit Union remains committed to delivering market-leading and innovative financial products and services whilst continuing to adhere to our core values..."

Thank you

We have worked hard to achieve solid results for the 2020 financial period on behalf of our valued Members. These successes were made possible due to the unwavering commitment of our passionate, dedicated and professional team. Despite the pandemic and economic uncertainty, we delivered on the financial needs of our customer-shareholders by embracing a resilient, positive and innovative mindset that produced superior customer experiences and high satisfaction levels.

As we focus our attention toward the end of the pandemic and well beyond, Police Credit Union remains committed to delivering market-leading and innovative financial products and services whilst continuing to adhere to our core values and contributing to communities and emergency services that have put their trust and support in us.

On behalf of the Board, Management and all employees we thank our many Members, friends and business partners for your ongoing support and trust during these tough times.

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 2020. 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: Sole Practitioner - Peter Alexander Lawyers
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 and Infrastructure Committee; Independent Chair Risk and Performance Committee Department of Treasury and Finance; Director Amaero International Limited; Fellow CPA Australia; Fellow Australian Institute of Company Directors; Fellow Institute of Governance Institute of Australia; Fellow Chartered Institute of Company Secretaries.

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 Risk 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, SA Police.
Director since: 2016
Member Board Audit Committee; Member Board Remuneration and Governance Advisory 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; Member Board Audit Committee; Fellow Australian Institute of Company Directors.

Michael John Edwin Standing

MAICD

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

Directors' Report (continued)

Director's Meetings

Director	Board of Directors		Board Audit Committee		Board Risk Committee		Board Remuneration and Governance Advisory Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A Zimmermann	12	11	-	-	-	-	3	3
M Fisher	12	12	-	-	4	4	3	2
P Alexander	12	11	-	-	4	3	3	3
A Dunn	12	11	4	4	-	-	-	-
K Presser	12	12	4	4	-	-	3	3
P Schar	12	12	4	4	3	3	1	1
T Scheffler	12	12	4	4	1	1	2	2
P Schramm	12	12	3	3	4	4	-	-
M Standing	12	10	1	1	4	4	-	-

Company Secretary

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

Principal Activities

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

Review of Operations

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

Changes in State of Affairs

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

Subsequent Events

As a result of the evolving nature of the COVID-19 pandemic, its economic impact and the rapidly evolving government restrictions to contain it, the Group is not in a position to reasonably estimate any further impact to the future financial performance and the financial position of the Group in any changed circumstances that may arise.

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, 30 September 2020

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 2020 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

30 September 2020

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 since 2008 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 Product and 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 Brand, Marketing & Communications

BPsych, MMKT

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

As the Executive Manager Brand, Marketing & Communications, Christie manages the promotion of Police Credit Union and its associated companies' brands, as well as being responsible for all corporate communication.

Christie is also Chairperson of the 'Community, Environment and Employee Engagement and Diversity' (CEEED) Committee, which is responsible for overseeing the implementation of ongoing initiatives reflecting Police Credit Union's commitment to community, social responsibility and reducing our environmental impact. The Committee remains focussed on enhancing employee engagement and diversity and building on an inclusive and proactive culture in the achievement of sustainable and superior customer experience outcomes.

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 & 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 18 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 five 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 & 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 & 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

Executive Manager People & Culture

BPsych, BBehavSci (Hons)

Annie commenced with Police Credit Union in 2014 and was appointed as Head of People & 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 Executive Manager 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 2020

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

To fulfil this role, the Board develops, 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 Independence, Renewal and Selection

All Board members are independent non-executive Directors. The Board is made up of a majority of elected Directors, who are elected on rotation. 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 has, in accordance with Police Credit Union's Constitution, established a Nominations Panel for the purpose of assessing each candidate, including those Directors whose term expires at the Annual General Meeting and who are offering themselves for re-election. The assessment is undertaken with reference to Board approved 'Model Criteria', to determine whether that person has demonstrated an ability to be a Director and is 'fit and proper'. The Nominations Panel consists of four members, two current Directors and two independent and external persons who possess an overall suitable mix of character, skills, knowledge and experience to enable an effective assessment of candidates. Following a detailed assessment, the Nominations Panel must be satisfied that each candidate has demonstrated an ability to be a Director as assessed against Board-approved Model Criteria and is fit and proper to be, and act, as a Director by reference to the Credit Union's Fit and Proper Policy. During the 2019-2020 reporting period, the Nominations Panel met twice to review and assess the candidates standing for election at the 2019 Annual General Meeting and to report to the Board the Panel's assessment of whether the candidates satisfy the Model Criteria.

Diversity and Inclusion

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

The Board has established a diversity and inclusion policy framework. Police Credit Union will not tolerate unlawful discrimination, harassment, workplace bullying or victimisation, or any behaviour that is inconsistent with our values or ethics. It is our policy to treat all employees, prospective employees, agents, contractors, customers, suppliers, and members of the community fairly and equally regardless of their race, colour, gender, sexual orientation, age, physical or mental impairment or disability, marital status, parental or carer's status, pregnancy, religious beliefs, socio-economic background, or ethnic, national, or social origin in accordance with the organisations Fair Treatment and Code of Ethics Policies. The Police Credit Union Group has consistently maintained full compliance with the Workplace Gender Equality Act 2012 since its inception and with the most recent notice of compliance for the period 2019-2020.

Continuing Education

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

Performance Evaluations

In accordance with Board Policy, Directors undertake an extensive evaluation of Performances and Practices covering areas such as accountability to shareholders, the setting of strategic direction, the establishment and review of Policies, the monitoring of organisational performance, Board composition and operation, attendance and contribution to meetings, Board Processes, Code of Conduct and Compliance and Control. Police Credit Union undertakes external and independent reviews of its governance arrangements, including comparison to standards of accepted good practice. During the year Police Credit Union engaged the AICD to undertake a governance review using its Governance Analysis Tool™.

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

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

In accordance with Board Policy, the Board Remuneration and Governance Advisory Committee and ultimately the full Board undertake extensive annual performance and remuneration reviews of the Chief Executive Officer, Executive-level direct reports of the CEO, and other persons whose activities may in the Board Remuneration and Governance Advisory Committee's opinion, affect the financial soundness of the Credit Union. Board policy requires that performance development reviews must be undertaken annually and after the conclusion of the financial period, using respective Accountability Statement and Position Performance Profiles, which incorporate KPI's, both financial and non-financial that are directly aligned to the Police Credit Union Strategic Plan balanced scorecard. The objectives of the Board remuneration policy, linked to performance reviews, are:

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

Fit and Proper

Police Credit Union maintains a robust framework to ensure that individuals appointed to senior positions within the Credit Union have the appropriate fitness and propriety to fulfil their prudential responsibilities. The framework set out in the Credit Union's Fit and Proper Policy addresses the requirements of APRA Consolidated Prudential Standard CPS 520 (Fit and Proper). Under the policy, all Directors and senior managers need to have, and must continue to demonstrate, the required competencies, character, diligence, honesty, integrity and judgement needed for the effective and prudent operation of the Credit Union. The policy requires the annual completion of a number of competency, background and probity checks as part of the assessment process to confirm the person's character, experience and qualifications.

The policy also requires annual notification of any relevant directorships, other interests, positions or associations as well as appropriate criminal and bankruptcy checks.

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

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.

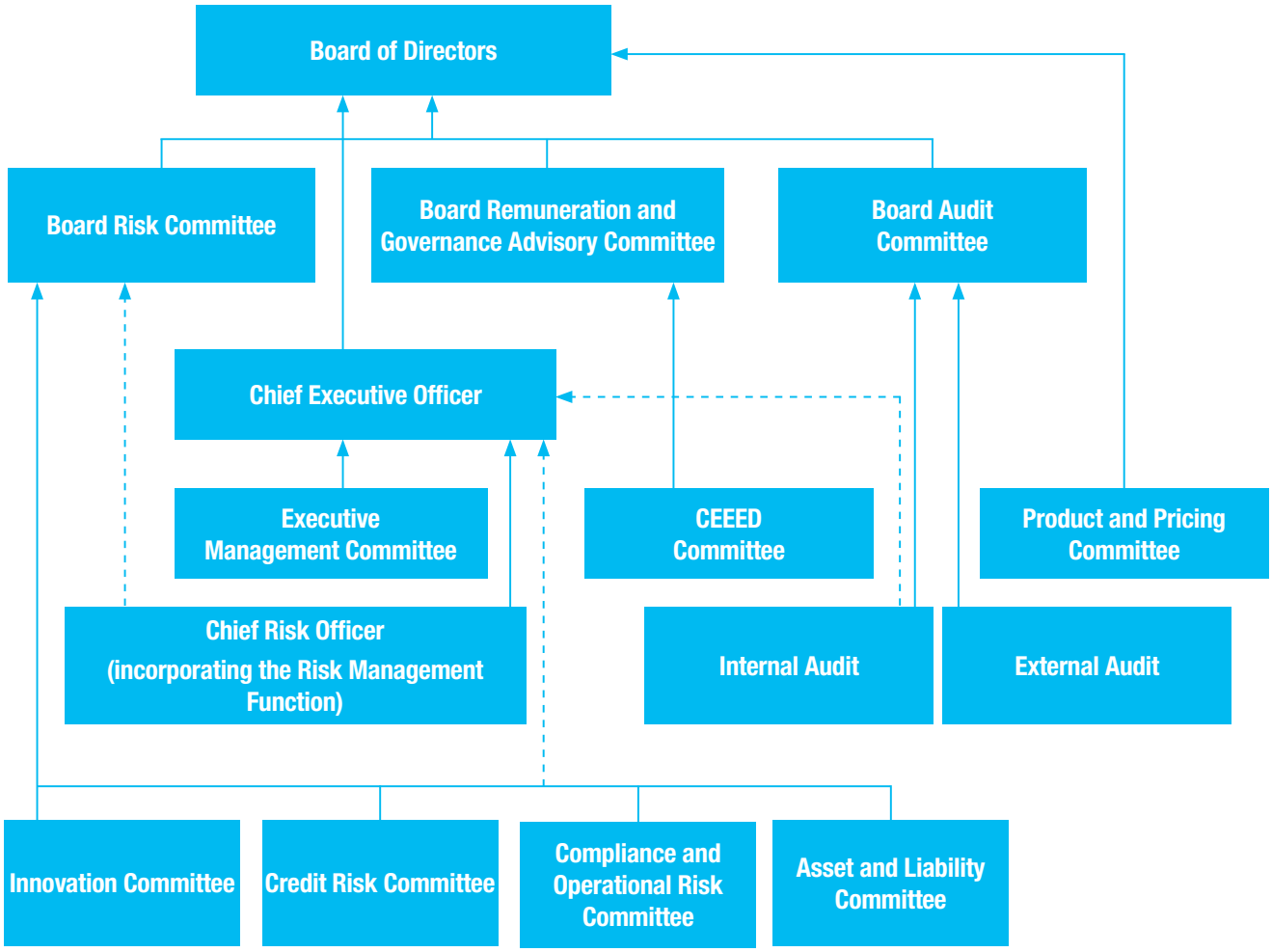
Committee Structure

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

Board Remuneration and Governance Advisory Committee

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

The 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.

Police Credit Union undertakes a detailed review of its overall risk management framework on an annual basis, with identified risks, and the controls in place to mitigate against these risks, being reviewed on a monthly basis by the Executive Management Committee and Board, and then further assessed by Board and Management Committees on a quarterly basis. During the period, this review did not identify any material exposures for which Police Credit Union does not have adequate controls in place.

As part of the review of the risk management framework, and specifically the key risks to which Police Credit Union is exposed, an ongoing assessment is also undertaken at each Board and Committee meeting as to whether there are any emerging risks for which new or additional controls must now be implemented. Part of this 'horizon scanning' includes consideration as to whether Police Credit Union is exposed to any environmental or social risks that may be present or emerging. The evaluation undertaken during the period assessed Police Credit Union as not having any material exposure to environmental or social risks.

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 incorporating changes into the Police Credit Union Group's compliance culture and ensures that staff are skilled to the appropriate level of compliance and monitors systems and policies that deal with the adequacy and effectiveness of the compliance system. The Committee is also responsible for operational risks, including regulation and compliance, culture and conduct, information security, corporate insurance, occupational health and safety, fraud management, and the implementation of an effective Business Continuity Plan.

Innovation Committee

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

Product and Pricing Committee

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

Community, Environment and Employee Engagement & 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.

All of the above Management Committees undertake an annual self-evaluation of the Committee's performance against its agreed objectives and mandate, as set out in the relevant Committee Charter.

Three Lines of Defence

The Board employs the Three Lines of Defence risk management and assurance model to facilitate effective risk governance. The Three Lines of Defence model reflects the Board's position that risk is everyone's responsibility and all employees are responsible for identifying and managing risk and operating within the Credit Union's appetite for risk. This approach requires each business line and business unit to manage the outcome of its risk taking activities and allows it to benefit from the resulting risk adjusted returns.

Internal Audit

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

Strategic Development

The Board and Executive Management Team undertake a comprehensive review of the Credit Union's strategic direction on an annual basis, including the development of a Balanced Scorecard and key performance indicators and ensure that the Credit Union's strategic direction is in accordance with the Board's risk appetite. The Board receives regular updates from the Chief Executive Officer on strategic planning progress and other strategic matters at monthly Board Meetings.

Ethical Standards

The Directors acknowledge the need for, and continued maintenance of, the highest standards of ethical conduct by all Directors and employees of the Police Credit Union Group. A Code of Ethics handbook, which is part of Board policy, contains a comprehensive overview of expected values, behaviours and conduct, and is issued to all staff as part of induction and as part of the annual ongoing training calendar.

The Code of Ethics policy statement provides a framework to guide interactions within the Group, with Members, suppliers, stakeholders and the community. Our commitment to maintaining a positive and ethical culture is directly aligned with our core values of superior service, honesty, integrity and financial prudence. These core values, as well as our strategic direction have been incorporated into the Code of Ethics that has been endorsed by the Executive Management Committee and adopted by the Board.

The Code of Ethics is a policy statement of the Group's corporate values and philosophy and underpins business decisions, actions, conduct and behaviour. It aims to make sure that the high standards of corporate and individual behaviour are observed in conducting the business and provides support for those behaviours. The Code of Ethics policy statement provides guidelines for Directors and employees, so that there is a common understanding of the values and expected standards of behaviour, including the following:

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

Conflict of Interest

In accordance with APRA Prudential Standards, ASIC licensee requirements, the Corporations Act 2001 and the Credit Union's Constitution, Directors and Senior Management keep the Board advised of any interest that could potentially conflict with those of the company. Directors do not vote on any issue where a conflict of interest may arise, and can seek external professional advice, at the Group's expense, with the approval of the Board. Prior to the commencement of each Board meeting, Directors are asked to consider an independence declaration, attesting that they are free from any conflict of interest.

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

Whistleblowing

As part of its commitment to a high standard of integrity, ethical conduct and transparency in all of its activities and interactions, Police Credit Union has implemented an effective Whistleblowing Policy that supports these principles, whilst adhering to its obligations as a regulated entity under the Corporations Act 2001 and the whistleblower provisions thereunder. This policy establishes a mechanism within Police Credit Union's officers and employees, suppliers, associates, and relatives or dependents of these individuals can safely raise concerns and challenge any misconduct and improper practices, including the ability to do so anonymously. In order to ensure the integrity and anonymity of the raising of any concerns, the Credit Union has appointed independent, and suitably qualified individuals as Whistleblower Protection Officers.

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

Communications to Shareholders (Members)

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

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

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

Financial Statements

for the financial year ended 30 June 2020

Statement of Comprehensive Income

for the financial year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Credit Union 2020 $'000	Credit Union 2019 $'000
Interest income		42,401	44,935	44,436	47,470
Interest expense		(16,962)	(21,621)	(22,102)	(26,037)
Net interest income	5	25,439	23,314	22,334	21,433
Fee and commission income	6	4,708	5,481	4,832	5,582
Other operating income	7	633	508	3,479	2,206
Impairment losses on loans and advances	15	(1,703)	(92)	(1,703)	(92)
Operating expenses	8	(21,742)	(22,280)	(21,607)	(22,198)
Profit before tax		7,335	6,931	7,335	6,931
Income tax expense	10 (a)	(2,162)	(2,079)	(2,162)	(2,079)
Profit for the year from continuing operations		**5,173**	**4,852**	**5,173**	**4,852**
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	21	279	-	279	-
Change in fair value gain/(loss) on equity investments	21	26	4	26	4
Item that may be reclassified subsequently to profit and loss:					
Effective portion of change in fair value of cash flow hedges	21	39	(43)	39	(43)
Total Comprehensive Income for the Year		**5,517**	**4,813**	**5,517**	**4,813**

Notes to the Financial Statements are included on pages 30 to 55

Statement of Financial Position

as at 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Credit Union 2020 $'000	Credit Union 2019 $'000
Assets					
Cash and bank balances	11	53,498	28,095	44,910	21,894
Receivables other	12	2,443	1,186	2,443	1,186
Loans and advances: to other ADIs	13	154,047	129,030	154,047	129,030
Loans and advances: to Members	14	946,085	961,293	946,085	961,293
Investment securities	23 (g)	1,940	1,903	259,714	132,380
Investment properties	16	727	727	727	727
Property, plant and equipment	17	12,779	10,946	12,779	10,946
Intangible assets		907	901	907	901
Deferred tax assets	10 (c)	1,486	1,023	1,486	1,023
Total Assets		**1,173,912**	**1,135,104**	**1,423,098**	**1,259,380**
Liabilities					
Deposits	18	1,042,726	1,039,990	1,042,726	1,039,990
Payables due to other ADIs	19	32,469	4,787	32,469	4,787
Borrowings	14	-	-	249,186	124,276
Payables other	20	6,217	3,827	6,217	3,827
Derivative liabilities	23 (d)	-	73	-	73
Current tax liabilities	10 (b)	887	715	887	715
Provisions	20	2,782	2,398	2,782	2,398
Total Liabilities		**1,085,081**	**1,051,790**	**1,334,267**	**1,176,066**
Net Assets		**88,831**	**83,314**	**88,831**	**83,314**
Equity					
Reserves	21	18,182	17,701	18,182	17,701
Retained earnings		70,649	65,613	70,649	65,613
Total Equity		**88,831**	**83,314**	**88,831**	**83,314**

Notes to the Financial Statements are included on pages 30 to 55

Statement of Changes in Equity

for the financial year ended 30 June 2020

Consolidated

	Reserves	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 30 June 2018	19,105	59,364	78,469
Adjustment on initial application of AASB 9 and AASB15, 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**
Profit for the year	-	5,173	5,173
Other comprehensive loss for the year	344	-	344
Total comprehensive income for the year	344	5,173	5,517
Transfers to retained earnings	137	(137)	-
Balance at 30 June 2020	**18,182**	**70,649**	**88,831**

Credit Union

	Reserves	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 30 June 2018	19,105	59,364	78,469
Adjustment on initial application of AASB 9 and AASB15, 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**
Profit for the year	-	5,173	5,173
Other comprehensive loss for the year	344	-	344
Total comprehensive income for the year	344	5,173	5,517
Transfers to retained earnings	137	(137)	-
Balance at 30 June 2020	**18,182**	**70,649**	**88,831**

Notes to the Financial Statements are included on pages 30 to 55

Statement of Cash Flows

for the financial year ended 30 June 2020

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit before tax	7,335	6,931	7,335	6,931
Adjustment for non-cash items:				
Allowance for credit impairment	1,575	36	1,575	36
Depreciation and amortisation charges	1,692	920	1,692	920
(Gain)/loss on sale of plant and equipment	(36)	77	(36)	77
Interest on lease liabilities	58	-	58	-
Amortisation of loan fee income	(171)	164	(171)	164
Changes in operating assets and liabilities:				
Loans and advances: to Members	13,803	(103,510)	13,803	(103,510)
Loans and advances: other ADIs (maturity greater than three months)	(16,013)	(30,520)	(16,013)	(30,520)
Deposits	2,736	86,329	2,736	86,329
Payables and other liabilities	753	1,512	753	1,512
Provisions	386	165	386	165
Receivables and other assets	(1,257)	88	(1,257)	88
Income tax paid	(2,601)	(1,789)	(2,601)	(1,789)
Net cash from/ (used in) operating activities	**8,260**	**(39,597)**	**8,260**	**(39,597)**
Purchase of property, plant and equipment and intangibles	(836)	(1,407)	(836)	(1,407)
Proceeds from sale of property, plant and equipment	43	32	43	32
Proceeds from sale of investment property	-	366	-	366
Net cash used in investing activities	**(793)**	**(1,009)**	**(793)**	**(1,009)**
Payables due to other ADIs	27,681	1,022	27,681	1,022
Borrowings	-	-	(2,387)	(6,201)
Lease Liability payments	(741)	-	(741)	-
Net cash from/(used in) financing activities	**26,940**	**1,022**	**24,553**	**(5,179)**
Net increase/(decrease) in cash held	34,407	(39,584)	32,020	(45,785)
Cash at the beginning of the financial year	31,098	70,682	24,897	70,682
Cash and cash equivalents at the end of the year	**65,505**	**31,098**	**56,917**	**24,897**
Cash and cash equivalents comprise:				
Cash and balances with banks	53,498	28,095	44,910	21,894
Loans and advances: other ADIs	154,047	129,030	154,047	129,030
Less: amounts with maturity greater than three months	(142,040)	(126,027)	(142,040)	(126,027)
	65,505	**31,098**	**56,917**	**24,897**

Notes to the Financial Statements are included on pages 30 to 55

Notes to the Financial Statements

for the financial year ended 30 June 2020

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'). This is the first set of the Group's annual financial statements in which AASB16 Leases has been applied. The related changes to significant accounting policies are described below.

The financial statements were authorised for issue by the Directors on 30 September 2020.

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 investment 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 Limited 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 16 Leases from 1 July 2019.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect on initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for financial year ended 30 June 2019 is not restated, - i.e. presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in the accounting policies are disclosed in Note 3 (e) below.

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 other than the policy for leases are consistent with the prior year:

a) Basis of consolidation

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at FVOCI

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

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

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

The Group's investment in an equity instrument, Cuscal Ltd is designated to be measured at FVOCI. The FVOCI designation was made because the investment is expected to be held for the long-term strategic purposes, rather than for trading. The investment is 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.

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.

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) Leases – Modified Retrospective approach

On transition to AASB 16 the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied AASB 16 only to contracts that were previously identified as leases under AASB117.

As a lessee, the Group leases branch premises and ATM locations. The Group previously classified these leases as operating leases under AASB 117 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for leases of branches on-balance sheet.

The Group has not entered into any new leases during the year ended 30 June 2020.

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

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

As lessor, the Group leases out property classified as operating leases of investment property, see Note 16.

Policy applicable from 1 July 2019

As a lessee, at inception of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. The Group recognises a right-of-use asset initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any incentives received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or ATM locations. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The Group used practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB117 by excluding initial direct costs from measuring the right of use asset at the date of initial application and using hindsight when determining the lease term.

As a lessor, at inception or modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If it is the case, then the lease is a finance lease; if not, then it is an operating lease. As a part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

As a Lessor the Group leases out certain property and classifies these leases as operating leases of investment property. The Group is not required to make any adjustments on transition to AASB16 for leases in which is acts a lessor.

Impact on transition

On transition to AASB 16 the Group recognised additional right of use assets and additional lease liabilities.

The impact of transition is presented in the table below:

	$'000
Right of use assets (Note 17)	2,278
Incentive received	156
Lease liabilities (Note 20)	2,434

When measuring lease liabilities for leases that were classified as operating lease, the group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 2.49%.

	$'000
Operating lease commitments at 30 June 2019 as disclosed under AASB117	2,838
Discounted using incremental borrowing rate	2,434

Policy applicable before 1 July 2019

As a lessee.

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. Assets held under operating leases were not recognised in the Group's statement of financial position.

As a lessor.

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or operating lease. To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As a part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

f) 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.

g) Securitisation

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

h) Standards and Interpretations not yet effective

At the date of issue of this report there were no Standards or Interpretations, not yet effective that would be relevant to the Group. The Group has considered all the Accounting Standards and Interpretations issued up to the date of approval of the financial report.

4. Critical accounting judgements and key sources of estimation uncertainty

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

Fair value measurements and valuation processes

Investment Securities, 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 2020

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000

5. Net interest income

Interest income				
Loans and advances: to other ADIs	2,363	3,984	2,329	3,920
Loans and advances: to Members	40,038	40,951	40,038	40,951
Notes receivable – MTG PCU Trust	-	-	2,069	2,599
	42,401	**44,935**	**44,436**	**47,470**
Interest expense				
Deposits	16,812	21,460	16,812	21,460
Payables due to other ADIs	150	161	150	161
Payable to MTG PCU Trust	-	-	5,140	4,416
	16,962	**21,621**	**22,102**	**26,037**
Net interest income	**25,439**	**23,314**	**22,334**	**21,433**

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	2,242	2,262	2,366	2,363
Insurance commissions	1,691	1,992	1,691	1,992
Other commissions	775	1,227	775	1,227
	4,708	**5,481**	**4,832**	**5,582**

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

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

Service	Nature and timing of satisfaction of performance obligations including significant payment terms	Revenue Recognition under AASB15
Transactional Banking Fees	Fee income comprises fixed transaction-based fees that are specified based on the nature and cost of the transaction. The obligation to pay the fee arises at the time of the service, when the transaction takes place, and these are billed to Members accounts monthly.	Revenue relating to transaction fees is recognised at a point in time when the transaction takes place.
Insurance Commissions	Commission is earned as a percentage of premiums for motor and household insurance policies arranged by the Group. The service obligations encompass all administration from inception, for the term of the policy, including renewal. The commissions are paid monthly provided the premiums have been received by the insurer.	An apportionment of commission is made to recognise that applying to the administration related component over time. The remaining component of commission, that relates to the underwriting of the policy at inception is recognised for a period of up to three years for which the Group is expected to receive commission.
Other Commissions	Commission is earned on transactions acquired through ATM's 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 2020

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000

7. Other operating income

Dividend income	125	47	125	47
Property rental income	72	99	72	99
Cost recoveries, contributions and loan/guarantee fees	436	362	436	362
Distribution from MTG PCU Trust	-	-	2,846	1,698
	633	**508**	**3,479**	**2,206**

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	222	204	222	204
Board committee and meetings	735	724	735	724
Commissions paid	314	313	314	313
Data processing & telecommunications	1,501	1,363	1,501	1,363
Debt collection costs	49	40	49	40
Depreciation & amortisation	1,692	920	1,692	920
Insurance	231	216	231	216
Legal and professional fees	704	544	569	462
(Gain)/Loss on disposal of property, plant and equipment	(36)	77	(36)	77
Marketing, advertising and printing	2,074	1,977	2,074	1,977
Office administration	420	484	420	484
Office occupancy	593	552	593	552
Operating lease rental expense	-	885	-	885
Salaries and on-costs	10,484	11,077	10,484	11,077
Training, travel and accommodation	509	664	509	664
Transaction costs	2,250	2,240	2,250	2,240
	21,742	**22,280**	**21,607**	**22,198**

The amount recognised as an expense for defined contribution plans is $1,167 thousand (2019: $1,121 thousand). The expense item is included within salaries, on-costs and Board committee and meetings.

Government assistance of $1,128 thousand (2019: nil) is deducted in reporting the related salaries and on-cost expenses.

9. Remuneration of auditors

Auditor of the Group:	$	$	$	$
Auditing of the financial statements	103,751	107,335	103,751	107,335
Other regulatory audit services	31,289	30,765	31,289	30,765
	135,040	**138,100**	**135,040**	**138,100**

The auditor of the Group is KPMG.

Notes to the Financial Statements

for the financial year ended 30 June 2020

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
10. Income tax				
(a) Income tax recognised in profit				
Current tax expense				
- in respect of the current year	2,789	2,260	2,789	2,260
- in relation to the current tax of prior year	(16)	(2)	(16)	(2)
Deferred tax expense				
- in respect of the current year	(616)	(179)	(616)	(179)
- in relation to the deferred tax of prior year	5	-	5	-
Total income tax expense	**2,162**	**2,079**	**2,162**	**2,079**
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	7,335	6,931	7,335	6,931
Income tax expense calculated at 30%	2,200	2,079	2,200	2,079
Permanent differences:				
Non-deductible expenses	10	16	10	16
Franked dividend received	(37)	(14)	(37)	(14)
	2,173	2,081	2,173	2,081
Over provision of tax in previous years	(11)	(2)	(11)	(2)
	2,162	**2,079**	**2,162**	**2,079**
(b) Current tax assets/(liabilities)				
Income tax payable	**(887)**	**(715)**	**(887)**	**(715)**
(c) Deferred tax assets				
Taxable and deductible temporary differences arise from the following:				
Depreciation on property, plant and equipment	216	189	216	189
Derivative liabilities	-	22	-	22
Employee entitlements	741	627	741	627
Investment properties - allowances	(40)	(37)	(40)	(37)
Gains on investments in equity instrument	(241)	(230)	(241)	(230)
Impairment allowances on loans	743	414	743	414
Land and buildings	(407)	(281)	(407)	(281)
Other deferred deductibles	(100)	(106)	(100)	(106)
Payables	340	284	340	284
Provisions for decommissioning	94	92	94	92
Unearned fees	140	49	140	49
	1,486	**1,023**	**1,486**	**1,023**
(d) Movement in deferred tax asset				
Deferred tax credited/(charged) to profit or loss	611	179	611	179
Deferred tax related to AASB 9 and AASB 15 transition	-	(14)	-	(14)
Deferred tax recognised in other comprehensive income	(148)	17	(148)	17
Increase/(decrease) in deferred tax asset	**463**	**182**	**463**	**182**
(e) Franking account				
Adjusted Franking account balance as at the end of financial year	33,006	31,374	33,006	31,374

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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
11. Cash and bank balances				
Held at amortised cost:				
Notes and coins	1,508	1,595	1,508	1,595
Bank balances	14,311	4,669	14,311	4,669
Bank balances – at call	37,679	21,831	29,091	15,630
	53,498	**28,095**	**44,910**	**21,894**

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	58	211	58	211
Contract receivable	502	510	502	510
Prepayments	58	62	58	62
Settlement and clearing accounts	1,387	314	1,387	314
Trade receivables	438	89	438	89
	2,443	**1,186**	**2,443**	**1,186**

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

Notes to the Financial Statements

for the financial year ended 30 June 2020

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000

13. Loans and advances: to other ADIs

Held at amortised cost:				
Other Banks	154,047	129,030	154,047	129,030
	154,047	**129,030**	**154,047**	**129,030**
Analysis of receivables due from other ADIs:				
By maturity:				
0–1 month	5,011	-	5,011	-
1–3 months	6,997	3,003	6,997	3,003
3–12 months	35,043	19,066	35,043	19,066
1–5 years	106,996	106,961	106,996	106,961
	154,047	**129,030**	**154,047**	**129,030**

14. Loans and advances: to Members

Held at amortised cost:				
Loans outstanding	949,031	962,834	949,031	962,834
Unearned fee income	(468)	(638)	(468)	(638)
Allowance for impairment (Note 15)	(2,478)	(903)	(2,478)	(903)
	946,085	**961,293**	**946,085**	**961,293**
Analysis of loans and advances (gross)				
By purpose:				
Residential loans	761,757	786,913	761,757	786,913
Personal loans	63,055	62,516	63,055	62,516
Credit card advances	4,207	5,208	4,207	5,208
Commercial loans	120,012	108,197	120,012	108,197
	949,031	**962,834**	**949,031**	**962,834**
By security:				
Secured by mortgage	873,774	887,275	873,774	887,275
Secured other	69,122	67,775	69,122	67,775
Unsecured	6,135	7,784	6,135	7,784
	949,031	**962,834**	**949,031**	**962,834**
By maturity:				
Overdraft	15,511	20,283	15,511	20,283
0–3 months	32,733	21,176	32,733	21,176
3–12 months	54,890	54,528	54,890	54,528
1–5 years	130,764	128,554	130,764	128,554
Over 5 years	715,133	738,293	715,133	738,293
	949,031	**962,834**	**949,031**	**962,834**

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 $171.0 million (2019: $175.6 million) are covered by lenders mortgage insurance that reduces the Group's exposure to credit risk.

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Concentration of loans and advances to groups of Members having similar characteristics are:				
Police	128,427	141,179	128,427	141,179
Nurses	18,289	20,209	18,289	20,209
Others	802,315	801,446	802,315	801,446
	949,031	**962,834**	**949,031**	**962,834**
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	28,955	26,663	28,955	26,663
Undrawn credit limits and re-draw	85,158	77,975	85,158	77,975
	114,113	**104,638**	**114,113**	**104,638**

Financial Guarantees have been issued on behalf of Members totalling $820 thousand (2019: $592 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 86.6% (2019: 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.

	2020 $'000	2019 $'000
Securitised loans	246,732	123,281
Unremitted collections at the end of the year	2,454	995
Borrowings	**249,186**	**124,276**

15. Allowance for impairment

A forward looking "Expected Credit Loss" (ECL) model for calculating impairment of financial assets has been adopted. This requires 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 of financial assets all allowance for ECL from defaults occurring over the next 12 months is recognised.

Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk (SICR) since origination are transferred to Stage 2 and an allowance equivalent to lifetime ECL is recognised. 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, loan commitments and financial guarantees contracts not measured at FVTPL. Other receivables which are 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 an obligor is made bankrupt, or loan repayments are 90 days past due. This position is taken to ensure consistency for Financial and Regulatory Reporting purposes. On default an assessment of the collateral in place for the loans and the time for realisation thereof is undertaken to assess 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 having to take actions such as realising on security to that the debtor will become 90 days overdue on obligation or contractual commitment.
- Exposure at default (EAD) – The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which the EAD calculation also 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:

	2020 Probability of Default (PD)	2020 Loss Given Default (LGD)	2019 Probability of Default (PD)	2019 Loss Given Default (LGD)
Bank Deposits	0.00%	0%	0.00%	0%
Debt Securities	0.05%	45%	0.05%	45%
Residential Home Loans and undrawn loan commitments	0.37%	5%	0.29%	5%
Personal Loans and undrawn loan commitments	0.34%	81%	0.38%	81%
Business Banking Loans and undrawn loan commitments	0.33%	5%	0.48%	5%

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

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

Residential Home Loans – all residential loans are mortgage secured and over 80% Loan to Valuation Ratios have lenders mortgage insurance. The Group carried out an extensive review of arrears and defaulted loans for the period from 2014 to 2020 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 2008-2020 in order to determine PD and LGD and noted no significant change in losses in the current year.

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

Notes to the Financial Statements

for the financial year ended 30 June 2020

The table below represents the Group's total impairment provisions on debt securities, loans and advances and undrawn loan commitments by ECL stage as at 30 June 2019 and 30 June 2020, as well as movement during the year.

	Stage 1 Collective Provision	Stage 2 Collective Provision	Stage 3 Specific Provision	Total
	$'000	$'000	$'000	$'000
1 July 2018	**443**	**1**	**423**	**867**
Stage 1 additional provision	14	-	-	**14**
Stage 2 additional provision	-	1	-	**1**
Stage 3 additional provision	-	-	6	**6**
Economic overlay	15	-	-	**15**
Total charged to income statement	**29**	**1**	**6**	**36**
30 June 2019 (*)	**472**	**2**	**429**	**903**
Stage 1 additional provision	-	-	-	**-**
Stage 2 additional provision	-	(2)	-	**(2)**
Stage 3 additional provision	-	-	57	**57**
Economic overlay	-	1,520	-	**1,520**
Total charged to income statement	**-**	**1,518**	**57**	**1,575**
30 June 2020 (**)	**472**	**1,520**	**486**	**2,478**

30 June 2019 comments

(*) – 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.

30 June 2020 comments

(**) – Stage 1 provision has not changed but contains $33 thousand of collective allowances in respect of loans and advances to other ADIs and Economic overlay of $15 thousand established on 30 June 2019.

Stage 2 provision has decreased to zero in relation to specific loans and the outstanding balance of the underperforming loans and a reduction is due to the structure of the loan portfolio.

In the current financial year, an economic overlay relating to loans that have been identified as impaired due to COVID-19 pandemic has been put in place for $1,520 thousand.

Stage 3 provision increased by $57 thousand. The balance on personal loans and overdraft increased to $557 thousand, residential loans increased to $3.9 million and business banking loan decreased to $350 thousand.

Economic overlay

PCU was not able to find a statistically significant relationship between macro-economic variables and its history of credit losses, these are not included as inputs in the base model. This is due to PCU's limited history of credit losses. The negative impact of economic conditions is factored into the value of mortgaged collateral.

The credit risk factors used in ECL calculation have not had sufficient time to be responsive to the economic impact of COVID-19 due to its onset in March 2020. Should a more lasting impact on the loan portfolio result an increase in probabilities of default and a similar increase in allowances for impairment will arise.

As a result of the limitation noted above, the impact of the COVID-19 pandemic has been modelled through an overlay to specifically determine expected credit losses that would possibly arise on impacted loans. To estimate the magnitude of the overlay, PCU engaged with all its borrowers to establish those affected. Such loans identified were reviewed by PCU's Management and impairment allowances were put in place based on the following factors:

- strength of the original loan application.
- the security on the loan and its location; and
- the conduct of account and the continued employment status of the borrower.

It is anticipated the impact of the COVID-19 will progressively flow through the base modelling and will be offset against the overlay at that time. Management have stress tested the overlay to determine the amount of additional portfolio deterioration which could be covered by the overlay.

The outcome of stress testing has indicated that losses on mortgages begin to emerge only once property values decline more than 20%. PCU mortgage secured loans are highly collateralised with Loan to Valuation Ratios of less than 80% at origination and the existence of lenders mortgage insurance, for loans greater than 80% Loan to Valuation Ratio. Management have simulated a decline in property values of 20% on the COVID-19 impacted portion of the portfolio and has assessed that this would result in a potential shortfall on mortgage collateral amounting to 42% of the Economic Overlay if the borrowers defaulted and the collateral was sold.

Overdue status of loans and advances to Members	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
30 June 2019	**$'000**	**$'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)**

Overdue status of loans and advances to Members	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**
Current	870,680	63,931	-	**934,611**
Overdue 0 – 29 days	1,333	9,138	-	**10,471**
Overdue 30 – 59 days	-	-	-	**-**
Overdue 60 – 89 days	-	-	-	**-**
Overdue more than 90 days, defaulted	-	-	3,949	**3,949**
Loans and advances outstanding	**945,082**	**73,069**	**3,949**	**949,031**
Undrawn facilities	37,567	613	-	**38,180**
Allowance for impairment	(457)	-	(486)	**(943)**
Economic overlay	(15)	(1,520)	-	**(1,535)**
Total allowance for impairment	**(472)**	**(1,520)**	**(486)**	**(2,478)**

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

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 a SICR (Stage 2 and credit impaired Stage 3) is presented in the table below:

	2020 Loan Balances	**2019 Loan Balances**
	$'000	**$'000**
Balances at 1 July	**4,758**	**2,880**
Increase in credit risk and/or credit impaired	1,967	3,861
Transferred to performing (Stage 1)	(2,161)	(1,947)
COVID-19 impacted loans	74,681	-
Decrease in balances	(2,227)	(36)
Loan and advances in Stage 2 and 3 at 30 June	**77,018**	**4,758**

Loans in Stage 2 and 3 are highly collateralised by mortgages and lenders mortgage insurance.

	2020 Loan Balances $'000	2019 Loan Balances $'000
Mortgage secured	63,062	1,314
Mortgage secured with LMI	11,989	280
	75,051	**1,594**

During the year PCU took possession of collateral for a loan with the total outstanding balance of $357 thousand. At year end the carrying value of properties in possession amounted to $511 thousand.

The contractual amount outstanding on financial assets that were written off during the year ended 30 June 2020 and that are still subject to enforcement activity is $74 thousand (2019: $71 thousand).

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Impairment loss recognised in the profit or loss:				
Recoveries on loans previously written off	33	52	33	52
Provisions for loan impairment - net movement	(1,575)	(36)	(1,575)	(36)
Loans written off during the year as uncollectible	(161)	(108)	(161)	(108)
Total impairment charge to profit and loss	**(1,703)**	**(92)**	**(1,703)**	**(92)**

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 2020 was arrived at based on a review of property indexes for the location of these properties. 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			
	Freehold land & buildings-fair value	Right of use land and buildings and leasehold improvements-cost	Plant and equipment-cost	Total
	$'000	$'000	$'000	$'000
Cost/Fair value	9,472	1,362	4,156	**14,990**
Accumulated depreciation	(209)	(1,079)	(2,756)	**(4,044)**
Balance at 30 June 2019	**9,263**	**283**	**1,400**	**10,946**
Cost/Fair value	9,170	4,024	4,219	**17,413**
Accumulated depreciation	-	(1,874)	(2,760)	**(4,634)**
Balance at 30 June 2020	**9,170**	**2,150**	**1,459**	**12,779**

Carrying values. Freehold land and buildings

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

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

Right-of-use assets

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

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

Other plant, equipment and leasehold improvements

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

Valuation of freehold land and buildings

Michael Schwarz, Certified Practicing Valuer of M3 Property Strategists performed an independent valuation of the Group's freehold land and buildings on 20 February 2020 to determine its fair value. The valuation adopted a capitalisation of net income approach. 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 $3.7 million (2019: $4.4 million).

Due to the potential impact to valuations as a result of the COVID-19 pandemic a subsequent valuation was performed due to the increased uncertainty. A higher risk premium was applied resulting in a lower valuation of $9.17 million on 8 June 2020.

Depreciation

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

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

The following estimated useful lives are used in the calculation of depreciation and were applied consistently over the current and prior years:

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

Notes to the Financial Statements

for the financial year ended 30 June 2020

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000

18. Deposits

Measured at amortised cost:				
Members' deposits	1,042,337	1,039,600	1,042,337	1,039,600
Redeemable preference shares	389	390	389	390
	1,042,726	**1,039,990**	**1,042,726**	**1,039,990**
Concentration of deposits				
Police	111,333	102,134	111,333	102,134
Nurses	56,124	54,117	56,124	54,117
Others	875,269	883,739	875,269	883,739
	1,042,726	**1,039,990**	**1,042,726**	**1,039,990**

Interest on deposits is calculated in accordance with the terms of each deposit and brought to account on an effective yield basis. Unpaid interest is accrued and reflected as a component of deposit balances. Deposits within South Australia comprise 86% (2019: 78%) of all deposits.

19. Payables due to other ADIs

Measured at amortised cost:				
RBA Term Funding Facility	28,846	-	28,846	-
Other financial institutions	3,623	4,787	3,623	4,787
	32,469	**4,787**	**32,469**	**4,787**

In response to the COVID-19 pandemic, the RBA has provided a term funding facility to the Credit Union, for a term of three years at a fixed interest rate. Securities sold under this agreement to repurchase are retained on the Statement of Financial Position when the majority of the risk and rewards of ownership remain with the Group. The counterparty liability is included within Payables due to other ADIs on the Statement of Financial Position when cash consideration is received.

20. Payables other and Provisions

Measured at amortised cost:				
Trade payables and accruals	2,221	2,809	2,221	2,809
Lease liabilities	1,803	-	1,803	-
Settlement and clearing accounts	2,193	1,018	2,193	1,018
Total Payables other	**6,217**	**3,827**	**6,217**	**3,827**
Employee entitlements	2,468	2,091	2,468	2,091
Decommissioning commitments	314	307	314	307
Total Provisions	**2,782**	**2,398**	**2,782**	**2,398**

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.

Lease liabilities - the lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise from only fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, if the Group changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Provisions are recognised when the Group has a present obligation, 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.

21. Reserves

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

a) Capital Redemption Reserve

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

b) General Reserve

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

c) General Reserve for Credit Losses

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

d) Revaluation Reserve

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

e) Cash flow Hedging Reserve

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

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

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

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

Notes to the Financial Statements

for the financial year ended 30 June 2020

	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 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**
Transfer from retained earnings	27	-	110	-	-	**137**
Gain arising on property revaluation	-	-	-	398	-	**398**
Deferred tax asset arising on property revaluation	-	-	-	(119)	-	**(119)**
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	37	-	**37**
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(11)	-	**(11)**
Loss arising on changes in fair value of interest rate swaps	-	-	-	-	57	**57**
Deferred tax asset arising on interest rate swaps	-	-	-	-	(18)	**(18)**
Balance at 30 June 2020	**594**	**11,748**	**1,080**	**4,760**	**-**	**18,182**
Credit Union						
Balance at 1 July 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**
Transfer from retained earnings	27	-	110	-	-	**137**
Gain arising on property revaluation	-	-	-	398	-	**398**
Deferred tax asset arising on property revaluation	-	-	-	(119)	-	**(119)**
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	37	-	**37**
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(11)	-	**(11)**
Loss arising on changes in fair value of interest rate swaps	-	-	-	-	57	**57**
Deferred tax asset arising on interest rate swaps	-	-	-	-	(18)	**(18)**
Balance at 30 June 2020	**594**	**11,748**	**1,080**	**4,760**	**-**	**18,182**

Notes to the Financial Statements

for the financial year ended 30 June 2020

22. Related party transactions

a) Parent Entity

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

b) The Group

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

	Ownership Interest		Credit Union	
	2020 %	2019 %	2020 $	2019 $
Parent Entity				
Police Credit Union Ltd	-	-	-	-
Controlled entity				
PCU Services Pty Ltd	100	100	1	1
Ian Berry Insurance Services Pty Ltd	100	100	1	1
MTG PCU Trust Repo Series No.1	100	100	20	20
			22	**22**

c) Key Management Personnel

Key Management Personnel have been defined as: Police Credit Union Ltd Board of 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 dependants 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	
	2020 $	2019 $
Key management personnel compensation		
Short-term employee benefits - including superannuation guarantee levy	2,682,092	2,529,330
Other long-term benefits - accruals for Long Service Leave	62,255	74,785
	2,744,347	**2,604,115**

	Transaction Accounts $	Investment Accounts $	Loans Accounts $
Transactions conducted on accounts of key management personnel 2020			
Balance at beginning of year*	(1,092,707)	(409,263)	2,830,810
Loans advanced	-	-	540,200
Deposits/repayments	(5,037,897)	(281,500)	(421,994)
Withdrawals	5,339,863	409,716	-
Interest paid	(12,199)	(5,453)	-
Interest charged/(received)	1,923	-	110,903
Net balance at end of year	**(801,017)**	**(286,500)**	**3,059,919**
Year end balances represented by:			
Deposit balances	(753,580)	(286,500)	-
Overdraft/loan balances	(47,437)	-	3,059,919
Net balance at end of year	**(801,017)**	**(286,500)**	**3,059,919**

	Transaction Accounts	Investment Accounts	Loans Accounts
	$	$	$
Transactions conducted on accounts of key management personnel 2019			
Balance at beginning of year*	(740,190)	(739,128)	3,260,713
Loans advanced	-	-	604,866
Deposits/repayments	(6,058,452)	(125,000)	(1,159,559)
Withdrawals	5,714,898	472,530	-
Interest paid	(10,896)	(13,951)	-
Interest charged	1,933	(3,714)	124,790
Net balance at end of year	**(1,092,707)**	**(409,263)**	**2,830,810**
Year end balances represented by:			
Deposit balances	(1,047,602)	(409,263)	-
Overdraft/loan balances	(45,105)	-	2,830,810
Net balance at end of year	**(1,092,707)**	**(409,263)**	**2,830,810**

*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. The 2019 transactions have been restated as they covered transactions from 1 June 2018 to 31 July 2019.

	2020 $'000	2019 $'000
Transactions within the wholly-owned group:		
The equitable right to loans originated by the Credit Union were sold to the MTG PCU Trust during the year giving rise to the following intra-group transactions to which Credit Union is a party:		
Sale of loans	153,709	141,516
Receipt of custodian and service fee	132	101
Payment of collections or loans	34,938	22,089
Payment for interest offset benefit	460	323
Receipt of note interest	2,069	2,599
Receipt of distributions from MTG PCU Trust	2,846	1,697

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

Forecasted net interest income, and thus net profit before tax, is susceptible to movements in market interest rates. Based on a 100 basis point parallel reduction in the year-end yield curve, the Credit Union expects to lose approximately $0.19 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 $1.15 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
2020					
Interest rate sensitivity gap: asset/(liability)	298,847	(210,621)	(67,707)	62,974	(114)
Cumulative interest rate sensitivity gap	298,847	88,226	20,519	83,493	83,379
% of assets	25.5%	7.5%	1.7%	7.1%	7.1%
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%

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
2020	-	-	-	-	-	-
2019	**(12)**	**(9)**	**(52)**	**-**	**-**	**(73)**

Interest rate swaps are designated in cash flow hedge relationships as hedging instruments and are carried at fair value. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates and the cash flow exposures on the variable rate deposits. The fair values, the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the reporting date are disclosed in the table below.

Consolidated and Credit Union

	Weighted average fixed payment rate		Notional principal		Fair value	
Expiry date of contracts	**2020 %**	**2019 %**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Less than 1 year	-	1.91%	-	38,000	-	(73)
Total			**-**	**38,000**	**-**	**(73)**

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

Notes to the Financial Statements

for the financial year ended 30 June 2020

e) Liquidity risk

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

- Management of both daily and forecasted cash flows;
- Maintaining a diversified and stable funding base comprising retail deposits;
- Ensuring exposures to large deposits are maintained within manageable limits and tenors and monitored to anticipate mismatches between anticipated inflows and outflows within different time periods;
- Maintaining a portfolio of cash at-call, negotiable certificates of deposit and debt securities issued by other ADIs over and above the prudential requirements. The Credit Union is a non-transactional member of the Reserve Bank Information Transfer System allowing it to access its certificates of deposits and debt securities immediately through repos with the Reserve Bank; and
- The Credit Union has established a self-securitisation program that allows it to access up to $201 million (2019: $101 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 2020							
Deposits	534,012	93,086	373,535	43,947	3,340	(5,194)	1,042,726
Payables due to other ADIs	602	-	3,050	-	-	(29)	3,623
RBA Term Funding Facility	-	-	-	29,045	-	(199)	28,846
Borrowings	-	-	-	-	249,186	-	249,186
Lease liabilities	58	113	489	1,109	101	(67)	1,803
Payables (other)	4,414	-	-	-	-	-	4,414
Total Credit Union	**539,086**	**93,199**	**377,074**	**74,101**	**252,627**	**(5,489)**	**1,330,598**
Consolidated 2020							
Deposits	534,012	93,086	373,535	43,947	3,340	(5,194)	1,042,726
Payables due to other ADIs	602	-	3,050	-	-	(29)	3,623
RBA Term Funding Facility	-	-	-	29,045	-	(199)	28,846
Lease liabilities	58	113	489	1,109	101	(67)	1,803
Payables (other)	4,414	-	-	-	-	-	4,414
Total Consolidated	**539,086**	**93,199**	**377,074**	**74,101**	**3,441**	**(5,489)**	**1,081,412**
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**

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 2020

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:

	2020 (Consolidated)		2020 (Credit Union)		
	Carrying amount	Fair value	Carrying amount	Fair value	Fair value hierarchy
	$'000	$'000	$'000	$'000	
Financial assets					
Cash and bank balances	53,498	53,498	44,910	44,910	Level 1
Loans and advances: to other ADIs	154,047	154,867	154,047	154,867	Level 2
Loans and advances: to Members	946,085	944,793	946,085	944,793	Level 3
Cuscal Ltd shares	1,940	1,940	1,940	1,940	Level 3
Notes MTG_PCU Trust Repo Series No.1	-	-	257,774	257,774	Level 2
Receivables other	2,443	2,443	2,443	2,443	Level 1
Total Financial Assets	**1,158,013**	**1,157,541**	**1,407,199**	**1,406,727**	
Financial liabilities					
Deposits	1,042,726	1,044,449	1,042,726	1,044,449	Level 2
Payables due to other ADIs	32,469	31,653	32,469	31,653	Level 2
Borrowings	-	-	249,186	249,186	Level 2
Payables other	6,217	6,217	6,217	6,217	Level 1
Total Financial Liabilities Consolidated	**1,081,412**	**1,082,319**	**1,330,598**	**1,331,505**	

	2019 (Consolidated)		2019 (Credit Union)		
	Carrying amount	Fair value	Carrying amount	Fair value	Fair value hierarchy
	$'000	$'000	$'000	$'000	
Financial assets					
Cash and bank balances	28,095	28,095	21,894	21,894	Level 1
Loans and advances: to other ADIs	129,030	129,184	129,030	129,184	Level 2
Loans and advances: to Members	961,293	955,210	961,293	955,210	Level 3
Cuscal Ltd shares	1,903	1,903	1,903	1,903	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	Level 1
Total Financial Assets	**1,121,507**	**1,115,578**	**1,245,783**	**1,239,854**	
Financial liabilities					
Deposits	1,039,990	1,041,309	1,039,990	1,041,309	Level 2
Payables due to other ADIs	4,787	4,789	4,787	4,789	Level 2
Borrowings	-	-	124,276	124,276	Level 2
Payables other	3,827	3,827	3,827	3,827	Level 1
Derivative liabilities	73	73	73	73	Level 2
Total Financial Liabilities Consolidated	**1,048,677**	**1,049,998**	**1,172,953**	**1,174,274**	

g) Investment securities

	Consolidated		Credit Union	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cuscal Ltd shares	1,940	1,903	1,940	1,903
Notes MTG PCU Trust Repo Series No.1	-	-	257,774	130,477
	1,940	**1,903**	**259,714**	**132,380**

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.

On 18 June 2020, a further tranche of notes was issued to increase the self-securitisation by transferring further equivalent interests in mortgages as $137 million of Class A notes and $7.6 million of Class B notes.

Composition of MTG PCU Trust Repo Series No.1 is represented by $239.4 million (2019: $120 million) of Class A notes and $17.6 million (2019: $10 million) of Class B notes together with accrued interest and distributions receivable. 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 22. 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).

Notes to the Financial Statements

for the financial year ended 30 June 2020

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 14.00% (2019: 14.04%). The Credit Union's capital adequacy at year-end amounted to 14.00% (2019: 14.04%).

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

	Consolidated		Credit Union	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Common Equity Tier 1 Capital ("CETI")				
Retained Earnings	70,649	65,613	70,649	65,613
Accumulated other comprehensive income ("OCI") and reserves:				
Total Accumulated OCI and reserves (*)	12,342	12,315	12,342	12,315
Revaluation reserves	4,760	4,416	4,760	4,416
Accumulated OCI and reserves	**17,102**	**16,731**	**17,102**	**16,731**
Deferred fee income	468	638	468	638
	17,570	**17,369**	**17,570**	**17,369**
CETI Capital before regulatory adjustments	82,982	76,098	82,982	76,098
Regulatory Adjustments:				
Other Intangibles	907	901	907	901
Cash-flow hedge reserve	-	(56)	-	(56)
Investments in other ADIs - Cuscal Ltd	1,940	1,903	1,940	1,903
DTA arising from temporary differences	1,486	1,023	1,486	1,023
Total Regulatory Adjustments to CETI	**4,333**	**3,771**	**4,333**	**3,771**
Common Equity Tier 1 Capital	83,886	79,211	83,886	79,211
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	**83,886**	**79,211**	**83,886**	**79,211**
General reserve for credit losses	1,080	970	1,080	970
Tier 2 Capital	**1,080**	**970**	**1,080**	**970**
Total Capital	84,966	80,181	84,966	80,181
Total Risk-Weighted Assets based on APRA standards	**607,005**	**571,146**	**607,017**	**571,146**
Capital Ratios and Buffers				
Common Equity Tier 1 (as a % of risk-weighted assets)	13.82%	13.87%	13.82%	13.87%
Tier 1 (as a % of risk-weighted assets)	13.82%	13.87%	13.82%	13.87%
Total Capital (as a % of risk-weighted assets)	14.00%	14.04%	14.00%	14.04%
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	6.82%	6.87%	6.82%	6.87%

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

Total Accumulated OCI and reserves	18,182	17,701	18,182	17,701
Revaluation reserves	(4,760)	(4,416)	(4,760)	(4,416)
General reserve for credit losses	(1,080)	(970)	(1,080)	(970)
Total Accumulated OCI and reserves for capital	**12,342**	**12,315**	**12,342**	**12,315**

Notes to the Financial Statements

for the financial year ended 30 June 2020

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.

26. Subsequent Events

As a result of the evolving nature of the COVID-19 pandemic, its economic impact and the rapidly evolving government restrictions to contain it, the Group is not in a position to reasonably estimate any further impact to the future financial performance and the financial position of the Group in any changed circumstances that may arise. Other than the current disclosures, there have been no events subsequent to reporting date which would have a material impact on the Group's 30 June 2020 Financial Statement.

Directors' Declaration

for the financial year ended 30 June 2020

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, 30 September 2020

KPMG

Independent Auditor's Report

To the members 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 2020 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 2020;
- 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.

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

30 September 2020

Police Credit Union Ltd
BSB 805 005
ABN 30 087 651 205
AFSL/Australian Credit Licence 238991

17 - 23 Carrington Street, Adelaide SA, 5000.
PO Box 6074 Halifax Street PO, Adelaide SA, 5000

1300 131 844 | policecu.com.au | pcu@policecu.com.au