Police Credit Union
Better Banking

ANNUAL REPORT 2021

Member Testimonials

"It was a major decision for us to move away from our previous long-term financial institution. We were so impressed with the product range and flexibility, it made too much sense not to move." *– Brigietta, Member 2 years*

"I like the security that is provided and the lovely people who work there. Police Credit Union is the only bank for me." *– Peter, Member 18 years*

"I'm happy to know that all my banking needs are met, knowing that I am receiving honest and professional service at all times." *– Diana, Member 34 years*

"Best customer service and sincere honest service that I have experienced in any financial (or other) institution." *– Benjamin, Member 8 years*

"They have assisted us with reshaping our business into a profitable success. The staff respond quickly and are very easy to deal with." *– Kathryn, Member 6 years*

"Grateful for excellent personal loan, hoping one day to refinance and move all loans to PCU and take advantage of excellent deals and rates for nurses." *– Kareena, Member 6 years*

"Police Credit Union means a lot to me because they helped us through a very difficult time when others wouldn't look at us." *– Brian, Member 23 years*

"As a police officer I feel we are more valued as members and encouraged to stay members with benefits. I feel more than a number banking with PCU." *– Michaela, Member 5 years*

"I have always been treated with utmost courtesy and staff are always extremely helpful. The atmosphere breeds privacy and confidentiality. I leave knowing my banking needs are well catered for." *– Rosemary, Member 21 years*

Cover: L to R - Police Credit Union (PCU) staff, PCU Members, SAPOL Cadets, PCU Member.

Chairman's and CEO's Report

We are pleased to present the 2021 Annual Report on the operations of Police Credit Union Limited. Our steadfast commitment to our core values and strategic priorities has delivered another year of strong performance across all measures. The results presented in this report have been achieved despite the many challenges of the past turbulent year, a period during which your Credit Union continued to remain focused on supporting our Members and the broader community.

As the nation continued to feel the ongoing impacts of the COVID-19 pandemic, we remained in an active pandemic response status throughout the period of review. We deployed carefully considered measures and engaged conservative and responsible practices to ensure, that Members and employees were well-supported, operated in a safe environment, and business disruptions minimised.

Police Credit Union has exceeded its Customer Satisfaction benchmark since 2009 and achieved a record 93.8% Member Satisfaction result for the 2021 financial period, underpinned in part by a best practice Net Promoter Score of 95.

During the reporting period, Police Credit Union achieved record Annual Member Value and Products per Member results of over $272 and 5.3 respectively. We were particularly pleased to see our significant and ongoing investment in delivering a balanced mix of traditional face to face, as well as reliable and innovative digital solutions for customers, resulting in a score of 97.1% in the measure of Member trust in Police Credit Union looking after your financial needs. This is testimony to the consistent delivery of positive and well-received Member experience outcomes during the period of review by our dedicated and professional employees.

Despite a challenging operating environment, group profit after tax concluded at $6.5 million, taking Member reserves to $95.7 million, which was a 7.7% increase on the previous period. As a mutual customer-owned organisation, 100% of these profits are reinvested back into the business to provide Members with access to loans and deposits, and to strategically invest in capital infrastructure designed to improve products and services.

Your Credit Union continued to perform in the upper industry quartile relative to key financial metrics. Return on Assets and Return on Equity ratios concluded the period at 0.55% and 7.09% respectively. Total group assets grew by 2.86%, reflecting modest growth funding settings during the pandemic. Notwithstanding, Police Credit Union has continued to average an annual growth rate of 8.05% since 2010.

Operating efficiency remained strong with the Operating Expenses to Operating Income Ratio concluding the period at 71.49%, and asset efficiency as measured by Operating Expenses to Average Total Assets at 1.97%. Overall productivity, as measured by Operating Income per fulltime equivalent employee, increased by 5.25% for the current period to $278,000.

Employee Satisfaction remained strong at 91.11% and was underpinned by a 93.4% Employee Engagement result, which remained in the global upper quartile, and a best practice rating. Strong and improved results for people and risk-based culture indices reflect a continued focus on key areas of, adherence to policy, compliance and regulations, sustained high-performance outcomes, and values-aligned behaviours and conduct.

"we’ve delivered a balanced mix of traditional face to face service with reliable and innovative digital solutions for customers."

Similarly, the focus, agility, presence, and effort by employees in driving effective operational outcomes, particularly relevant during the COVID-19 pandemic, resulted in strong performance of the Organisational Resilience Index. The Index remained stable, increasing marginally to 91.3% for the period.

This consistent result reflects a continued careful and conservative approach in managing the key areas of performance that underpin the availability of the Credit Union’s critical operating systems. These include the maturity of our digital security strategies, robust and adaptable business continuity management frameworks, careful monitoring and mitigation of risk incidents, and proactive investment in resilience training.

Organisational risks continued to be closely monitored with further initiatives and mitigants activated across all key risks to ensure the ongoing adequacy and effectiveness of the risk control frameworks. Additional and continuous effort to improve oversight and reporting frameworks, enhanced the overall management of our risk frameworks. This resulted in overall stability in residual risk scores as reflected in the Average Significant Risk Score contained at 35.3.

During the period, Police Credit Union invested over $527,000 in sustainable strategic community investments, including the renewal of numerous important existing sponsorships along with some newly formed partnerships. We have consistently delivered on our community commitments each year since formulating our strategic benchmark in 2006 and have cumulatively invested in excess of $5.5 million since this time as reflected in our Community Investment Spend.

Since 2018, Police Credit Union has maintained a carbon zero footprint having achieved its strategic target reduction which formally commenced in 2007. Police Credit Union continued to expand the scope of its environmental impact initiatives, including policy frameworks and initiatives designed to reduce greenhouse gas emissions, waste, and pollution.

In addition, our future focus will include a positive forward step in enhancing key product characteristics to introduce a pass-through of carbon-zero offsets on products such as car loans.

The high-level Financial and Non-Financial metrics presented opposite, provide constant guidance to the governance and leadership teams in ensuring that our business activities are closely aligned to the values and strategy of the organisation.

"The team is now challenged to continue this journey, remembering our purpose, remaining attuned and relevant to Member's needs, maintaining our positive high-performance mindset, and building excellence..."

Summary of Financial and Non-Financial Performance Metrics

Strategic Metrics	Actual 30 June 2021	Strategic Target Achieved
Group Profit After Tax	$6.5 million	✓
Group Assets	$1.2 billion	✓
Growth in Total Assets	2.86%	✓
Return on Assets	0.55%	✓
Return on Equity	7.09%	✓
Expenses to Income	71.49%	✓
Expenses to Assets	1.97%	✓
Capital Adequacy	14.51%	✓
Member Satisfaction Rating	93.8%	✓
Products per Member	5.3	✓
Per Member Value for the 12-month period	$272	✓
Employee Satisfaction Index	91.1%	✓
People-based Culture Index	94.2%	✓
Risk-based Culture Index	96.0%	✓
Organisational Resilience Index	91.3%	✓
Innovation Index	91.5%	✓
Average Significant Risk Score	35.3	✓
Annual Community Investment Spend ($'000)	$527	✓
Community Engagement Index	85%	☒ Target of 90 not achieved. Index impacted negatively by COVID-19 restrictions
Carbon Emissions Footprint	zero	✓

"During these difficult and volatile times, we have remained vigilant and focused on not allowing complacency to creep into our optimistic mindset".

Despite the many unparalleled challenges over the past 12 months, the Police Credit Union governance and leadership teams continue to draw on their capability and cultural strength to confront these challenges. During these difficult and volatile times, we have remained vigilant and focused on not allowing complacency to creep into our optimistic mindset.

The strategy of Police Credit Union proved itself to be inherently adaptable, and has been characterised by responsive and agile leadership, robust governance and accountability, and based upon a culture of trust, transparency, innovation and alignment to vision and values.

The entire Police Credit Union team successfully leveraged these attributes with mindful resolve in continuing the journey of building a resilient and sustainable organisation. It is a team that does not merely survive but flourishes.

The team is now challenged to continue this journey, remembering our purpose, remaining attuned and relevant to Members' needs, maintaining our positive high-performance mindset, and building excellence that well-surpasses the test of time.

We take this opportunity to recognise and acknowledge the outstanding contribution of Mr. Paul Schramm during his successful tenure as a Director since 1990, and who retired from the Board after the 2020 AGM. Amongst his many achievements, Paul served as Chairman of the Board between 2005-2012.

On behalf of the Board, Management, Staff and Members we thank him for his tireless efforts, sound leadership, strength of character, camaraderie, exemplary service and his enormous positive contribution to the successes of Police Credit Union.

The achievements and successes that we have presented in this report are a result of the combined efforts of our loyal and committed team. Notwithstanding the significant impact of the pandemic on all of us, the team at Police Credit Union displayed courage, resilience, adaptability, and commitment like never before. During this period their authenticity and humanity shone through, and they displayed an unwavering work ethic, passion for success, diligence and professionalism in getting the job done, and enormous commitment and integrity in serving you with outstanding customer service.

 

Thank you

We value the significant trust placed in us by Members to deliver on their many banking needs. Despite any impeding external influences, Police Credit Union remains highly resilient and well-positioned both in capacity and capability in continuing to deliver exceptionally competitive financial products and services to Members. Our commitment to remaining highly sustainable, values driven and relevant to our communities, in delivering a customer experience that is second to none, is absolute.

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

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 as the "Group") submit herewith the annual financial report for the financial year ended 30 June 2021. 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: Retired Chief Inspector of Police / Bushfire Community Recovery Coordinator
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

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 of the Audit and Risk Committee of Funds SA; Advisory Board Member SAFA; Council and Audit Committee Member of Walford Anglican School for Girls; Council Member and Chairman of the Finance and Infrastructure Committee of The University of Adelaide; 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 - resigned 20 November 2020
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	12	-	-	-	-	3	3
M Fisher	12	12	-	-	4	4	3	3
P Alexander	12	10	-	-	4	3	3	3
A Dunn	12	12	4	4	-	-	-	-
K Presser	12	11	4	4	-	-	3	3
P Schar	12	12	4	4	4	4	3	3
T Scheffler	12	12	4	4	4	4	3	3
P Schramm	4	3	1	1	1	1	-	-
M Standing	12	12	3	2	4	4	-	-

Company Secretary

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

Principal Activities

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

Review of Operations

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

Changes in State of Affairs

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

Subsequent Events

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, 29 September 2021

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 2021 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

29 September 2021

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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 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 and accountable for efficiently carrying out the management of all 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; ensuring 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 appropriate, adequate and effective.

Paul Modra

Executive Manager Member Value & Distribution and Deputy Chief Executive Officer

MBA

Joining Police Credit Union in 2001, Paul has over 25 years' experience in the credit union industry. 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, B.Acc, Higher Diploma in Tax Law, Chartered Accountant

James has been with Police Credit Union since 2005. In April 2013, James was appointed Executive Manager Finance and is currently responsible for the financial control of the Credit Union. His core responsibilities involve overseeing the Finance area including Treasury.

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 is a key member of the Product and Pricing Committee and 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 a member of the Product and Pricing Committee and Innovation Committee. She 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 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.

With 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.

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.

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 and 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.

Ben Stephenson

Executive Manager Technology & Data

MInfoSysSec., MACS

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.

Ben has almost 20 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.

Ben is the Chairperson of the Innovation Committee and sits on the Compliance and Operational Risk Committee.

Sean Willetts

Executive Manager Risk & Compliance

MIns & RiskMgt, ANZIIF (Fellow) CIP, BBus. (Eco & Fin), GCert. CommLaw

Sean commenced with Police Credit Union in 2015, when he was appointed as Executive Manager Risk & Compliance. In 2019, he was appointed as a Company Secretary, 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.

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 2021

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

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

Board 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 reporting period, the Nominations Panel met twice to review and assess the candidates standing for election at the 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 organisation's Fair Treatment and Code of Ethics Policies. The Police Credit Union Group has consistently maintained full compliance with the Workplace Gender Equality Act 2012 since its inception and with the most recent notice of compliance for the period 2020-2021.

Continuing Education

In accordance with the Responsible Learning Policy, Police Credit Union Directors actively participate in ongoing professional education programs that include minimum levels of required structured and unstructured learning and the provision of regular scheduled training by internal and external experts across various banking and finance disciplines. It is also mandatory that Directors collectively have the necessary skills, knowledge, and experience to understand and effectively manage the strategy and risks of the regulated institution. All Directors undertake extensive and continuing professional development programs to optimise and enhance their current skills and knowledge. Police Credit Union's policy on Responsible Person Learning, requires all Directors to each complete a minimum of 90 hours of professional development over a triennium period consisting of 35 hours of approved structured learning and 55 hours of approved unstructured learning. For the period of review, all Directors have completed the mandatory minimum requirement as set out in Board policy.

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.

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 KPIs, both financial and non-financial that are directly aligned to the Police Credit Union Strategic Plan balanced scorecard. The objectives of the Board remuneration policy, linked to performance reviews, are:

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

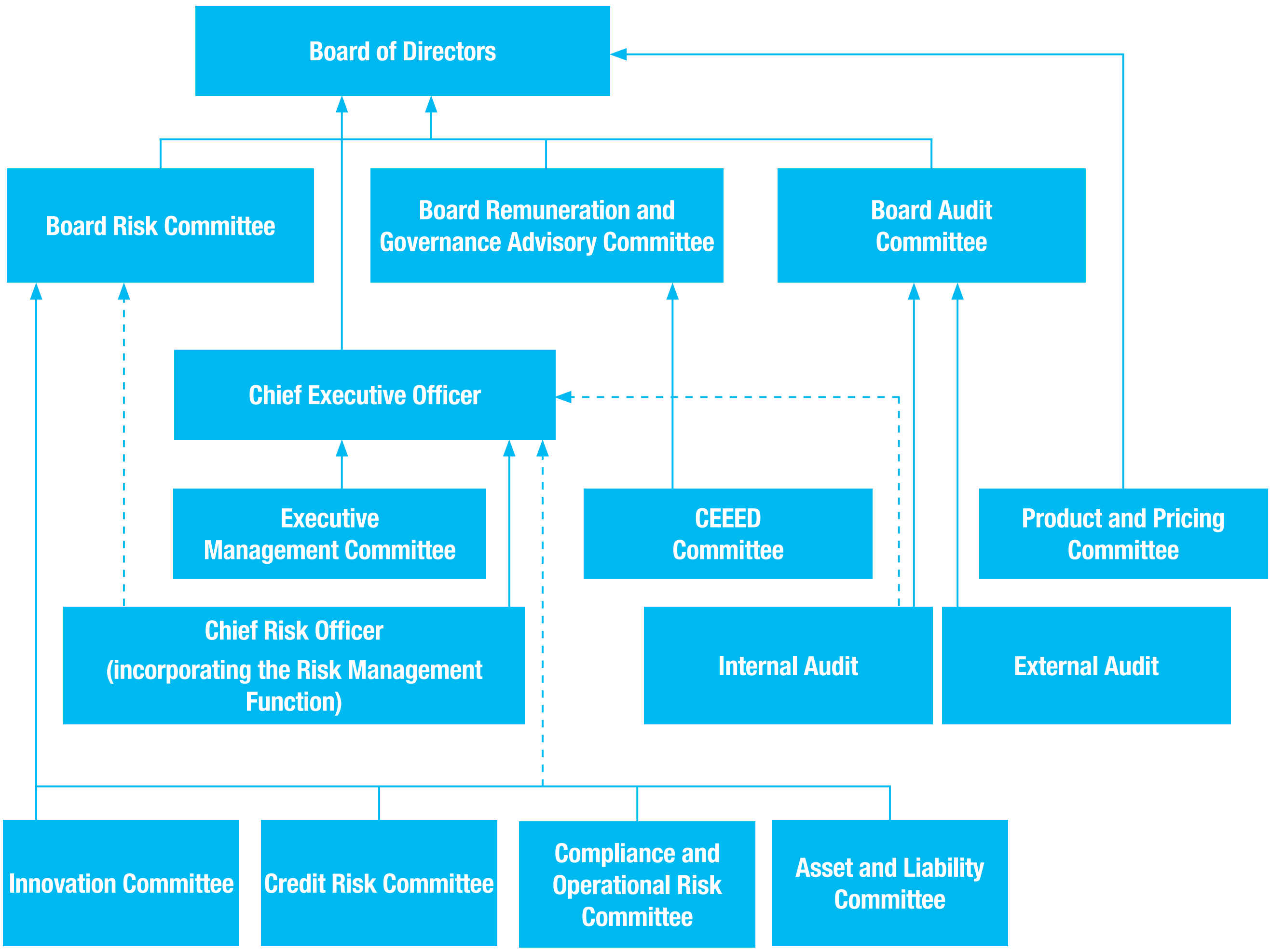
- act with honesty, integrity and with due skill, care and diligence;
- deal with Regulators in a way which is open, constructive and cooperative; and
- prevent matters from arising which impact the prudential standing or prudential reputation of Police Credit Union.

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

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

Asset and Liability Committee

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

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

Credit Risk Committee

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

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

Compliance and Operational Risk Committee

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

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

Innovation Committee

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

Product and Pricing Committee

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

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

The CEEED Committee reports to the Board Remuneration and Governance Advisory Committee and is responsible for overseeing the implementation of ongoing initiatives which reflect Police Credit Union's commitment to community, social responsibility and the environment. Notwithstanding Police Credit Union's long-standing commitment to Community and Environment, having implemented strategic level metrics since 2006 to transparently monitor and measure progress around sustainability, it has further enhanced this position through the development of a Board-level Environmental and Social Sustainability Policy. The policy framework further formalises Police Credit Union's commitment to expanding the scope of its environmental impact initiatives, including enhancements centred around greenhouse gas emissions, waste, and pollution.

In addition, this policy commitment provides guidance in the implementation of social sustainability initiatives incorporating relevant key entity factors including workforce and diversity, safety management, and community involvement, both of which strengthen Police Credit Union's strategic effectiveness in achieving positive environmental and corporate social responsibility outcomes. The CEEED Committee is also mandated to develop and implement initiatives to enhance employee engagement and diversity, specifically to attract and retain talent, drive high performance team outcomes and engage a proactive culture in the achievement of sustainable and superior customer experience outcomes.

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, emerging issues and other strategic matters at monthly Board Meetings.

Ethical Standards

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

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

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

Financial Statements

for the financial year ended 30 June 2021

Statement of Comprehensive Income

for the financial year ended 30 June 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000	Credit Union 2021 $'000	Credit Union 2020 $'000
Interest income		36,299	42,401	38,457	44,436
Interest expense		(8,389)	(16,962)	(16,537)	(22,102)
Net interest income	5	27,910	25,439	21,920	22,334
Fee and commission income	6	4,415	4,708	4,660	4,832
Other operating income	7	423	633	5,946	3,479
Impairment losses on loans and advances	15	(449)	(1,703)	(449)	(1,703)
Operating expenses	8	(23,413)	(21,742)	(23,191)	(21,607)
Profit before tax		8,886	7,335	8,886	7,335
Income tax expense	10(a)	(2,348)	(2,162)	(2,348)	(2,162)
Profit for the year from continuing operations		**6,538**	**5,173**	**6,538**	**5,173**

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	261	26	261	26
Gain on change in corporate tax rate	21	48	-	48	-
Item that may be reclassified subsequently to profit and loss:					
Effective portion of change in fair value of cash flow hedges	21	-	39	-	39
Total Comprehensive Income for the Year		**6,847**	**5,517**	**6,847**	**5,517**

Notes to the Financial Statements are included on pages 28 to 52

Statement of Financial Position

as at 30 June 2021

		Consolidated		Credit Union	
	Note	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Assets					
Cash and bank balances	11	84,507	53,498	58,148	44,910
Receivables other	12	884	2,443	884	2,443
Investment instruments	13	152,444	154,047	152,444	154,047
Loans and advances: to Members	14	953,186	946,085	953,186	946,085
Investment securities	23(f)	2,249	1,940	259,589	259,714
Investment properties	16	-	727	-	727
Property, plant and equipment	17	11,828	12,779	11,828	12,779
Intangible assets		757	907	757	907
Current tax assets	10(b)	72	-	72	-
Deferred tax assets	10(c)	1,685	1,486	1,685	1,486
Total Assets		**1,207,612**	**1,173,912**	**1,438,593**	**1,423,098**
Liabilities					
Deposits	18	1,051,381	1,042,726	1,051,381	1,042,726
Payables due to other financial institutions	19	47,909	32,469	47,909	32,469
Borrowings	14	-	-	230,981	249,186
Payables other	20	8,916	6,084	8,916	6,084
Current tax liabilities	10(b)	-	887	-	887
Provisions	20	3,728	2,915	3,728	2,915
Total Liabilities		**1,111,934**	**1,085,081**	**1,342,915**	**1,334,267**
Net Assets		**95,678**	**88,831**	**95,678**	**88,831**
Equity					
Reserves	21	18,575	18,182	18,575	18,182
Retained earnings		77,103	70,649	77,103	70,649
Total Equity		**95,678**	**88,831**	**95,678**	**88,831**

Notes to the Financial Statements are included on pages 28 to 52

Statement of Changes in Equity

for the financial year ended 30 June 2021

Consolidated

	Reserves	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 30 June 2019	**17,701**	**65,613**	**83,314**
Profit for the year	-	5,173	**5,173**
Other comprehensive income for the year	344	-	**344**
Total comprehensive income for the year	344	5,173	**5,517**
Transfers to/(from) retained earnings	137	(137)	**-**
Balance at 30 June 2020	**18,182**	**70,649**	**88,831**
Profit for the year	-	6,538	**6,538**
Other comprehensive income for the year	309	-	**309**
Total comprehensive income for the year	309	6,538	**6,847**
Transfers to/(from) retained earnings	84	(84)	**-**
Balance at 30 June 2021	18,575	77,103	**95,678**

Credit Union

	Reserves	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 30 June 2019	**17,701**	**65,613**	**83,314**
Profit for the year	-	5,173	**5,173**
Other comprehensive income for the year	344	-	**344**
Total comprehensive income for the year	344	5,173	**5,517**
Transfers to/(from) retained earnings	137	(137)	**-**
Balance at 30 June 2020	**18,182**	**70,649**	**88,831**
Profit for the year	-	6,538	**6,538**
Other comprehensive income for the year	309	-	**309**
Total comprehensive income for the year	309	6,538	**6,847**
Transfers to/(from) retained earnings	84	(84)	**-**
Balance at 30 June 2021	**18,575**	**77,103**	**95,678**

Notes to the Financial Statements are included on pages 28 to 52

Statement of Cash Flows

for the financial year ended 30 June 2021

	Consolidated		Credit Union	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Profit before tax	8,886	7,335	8,886	7,335
Adjustment for non-cash items:				
Allowance for credit impairment	444	1,575	444	1,575
Depreciation and amortisation charges	1,747	1,692	1,747	1,692
Loss/(gain) on sale of plant and equipment	38	(36)	38	(36)
Revaluation reserve on investment property	32	-	32	-
Fair value gain on investment property	(33)	-	(33)	-
Interest on lease liabilities	50	58	50	58
Amortisation of loan fee income	(9)	(171)	(9)	(171)
Changes in operating assets and liabilities:				
Loans and advances: to Members	(7,536)	13,803	(7,536)	13,803
Loans and advances: other ADIs (maturity greater than three months)	19,106	(16,013)	19,106	(16,013)
Deposits	8,655	2,736	8,655	2,736
Payables and other liabilities	3,324	753	3,324	753
Provisions	945	386	945	386
Receivables and other assets	1,559	(1,257)	1,559	(1,257)
Income tax paid	(3,505)	(2,601)	(3,505)	(2,601)
Net cash from operating activities	**33,703**	**8,260**	**33,703**	**8,260**
Purchase of property, plant and equipment and intangibles	(711)	(836)	(711)	(836)
Proceeds from sale of property, plant and equipment	27	43	27	43
Proceeds from sale of investment property	729	-	729	-
Net cash from/(used in) investing activities	**45**	**(793)**	**45**	**(793)**
Payables due to other financial instiutions	15,441	27,681	15,441	27,681
Borrowings	-	-	(17,771)	(2,387)
Lease Liability payments	(676)	(741)	(676)	(741)
Net cash from/(used in) financing activities	**14,765**	**26,940**	**(3,006)**	**24,553**
Net increase in cash held	48,513	34,407	30,742	32,020
Cash at the beginning of the financial year	65,505	31,098	56,917	24,897
Cash and cash equivalents at the end of the year	**114,018**	**65,505**	**87,659**	**56,917**
Cash and cash equivalents comprise:				
Cash and balances with banks	84,507	53,498	58,148	44,910
Investment instruments	152,444	154,047	152,444	154,047
Less: amounts with maturity greater than three months	(122,933)	(142,040)	(122,933)	(142,040)
	114,018	**65,505**	**87,659**	**56,917**

Notes to the Financial Statements are included on pages 28 to 52

Notes to the Financial Statements

for the financial year ended 30 June 2021

1. General information

Police Credit Union Limited (the "Credit Union" or the "Company") is a public company, incorporated and operating in Australia. Its registered office and its principal place of business is as follows:
17 – 23 Carrington Street
Adelaide SA 5000
Tel: 1300 131 844

2. Summary of accounting policies

Statement of compliance

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

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

The financial statements were authorised for issue by the Directors on 29 September 2021.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for Investment Properties, Freehold Land & Buildings, investment in equity investment and derivatives which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars 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.

Critical accounting judgements and key sources of estimation uncertainty

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

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

3. Significant accounting policies

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

a) Basis of consolidation

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

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

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

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

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

b) Financial assets

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at FVOCI

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

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

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

The Group’s investment in an equity instrument, Cuscal Ltd is designated to be measured at FVOCI. The FVOCI designation was made because the investment is expected to be held for the long-term strategic purposes, rather than for trading. The investment is measured at fair value. Fair value is determined in the manner described in Note 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 measured at cost after initial recognition by the Company.

c) Financial liabilities

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

Member shares

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

Debt and equity instruments

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

Interest and dividends

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

d) 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 2021.

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 has during the year, leased out property classified as operating leases of investment property, see Note 16.

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.

e) Goods and services tax

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

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

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

f) Securitisation

The Credit Union has established a securitisation trust for the purpose of issuing notes that are eligible for borrowing funds via Repurchase Agreements with the Reserve Bank of Australia (RBA) 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(f).

g) 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.

Notes to the Financial Statements

for the financial year ended 30 June 2021

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 17 and 23(f).

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.

5. Net interest income

	Consolidated		Credit Union	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Interest income				
Investment instruments	1,325	2,363	1,321	2,329
Loans and advances: to Members	34,974	40,038	34,974	40,038
Notes receivable – MTG PCU Trust	-	-	2,162	2,069
	36,299	**42,401**	**38,457**	**44,436**
Interest expense				
Deposits	8,217	16,812	8,217	16,812
Payables due to other financial institutions	172	150	172	150
Payable to MTG PCU Trust	-	-	8,148	5,140
	8,389	**16,962**	**16,537**	**22,102**
Net interest income	**27,910**	**25,439**	**21,920**	**22,334**

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

	Consolidated 2021 $'000	Consolidated 2020 $'000	Credit Union 2021 $'000	Credit Union 2020 $'000
Fee income	2,074	2,242	2,319	2,366
Insurance commissions	1,674	1,691	1,674	1,691
Other commissions	667	775	667	775
	4,415	**4,708**	**4,660**	**4,832**

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.

7. Other operating income

	Consolidated 2021 $'000	Consolidated 2020 $'000	Credit Union 2021 $'000	Credit Union 2020 $'000
Dividend income	28	125	28	125
Property rental income	60	72	60	72
Net gain on disposal of investment properties	1	-	1	-
Cost recoveries, contributions and loan/guarantee fees	334	436	334	436
Distribution from MTG PCU Trust	-	-	5,523	2,846
	423	**633**	**5,946**	**3,479**

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

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

Notes to the Financial Statements

for the financial year ended 30 June 2021

	Consolidated		Credit Union	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
8. Operating expenses				
Affiliation fees	198	222	198	222
Board committee and meetings	736	735	736	735
Commissions paid	330	314	330	314
Data processing & telecommunications	1,619	1,501	1,619	1,501
Debt collection costs	40	49	40	49
Depreciation & amortisation	1,747	1,692	1,747	1,692
Insurance	289	231	289	231
Legal and professional fees	1,244	704	1,022	569
(Gain)/loss on disposal of property, plant and equipment	41	(36)	41	(36)
Marketing, advertising and printing	2,037	2,074	2,037	2,074
Office administration	451	420	451	420
Office occupancy	696	593	696	593
Salaries and on-costs	11,141	10,484	11,141	10,484
Training, travel and accommodation	496	509	496	509
Transaction costs	2,348	2,250	2,348	2,250
	23,413	**21,742**	**23,191**	**21,607**

The amount recognised as an expense for defined contribution plans is $1,219 thousand (2020: $1,167 thousand). The expense item is included within salaries, on-costs and Board committee and meetings.

Government assistance of $1,266 thousand (2020: $1,128 thousand) is deducted in reporting the related salaries and on-cost expenses.

9. Remuneration of auditors

Auditor of the Group:	**$**	**$**	**$**	**$**
Auditing of the financial statements	101,487	103,751	101,487	103,751
Other regulatory audit services	37,053	31,289	37,053	31,289
	138,540	**135,040**	**138,540**	**135,040**

The auditor of the Group is KPMG.

Notes to the Financial Statements

for the financial year ended 30 June 2021

10. Income tax

	Consolidated 2021 $'000	Consolidated 2020 $'000	Credit Union 2021 $'000	Credit Union 2020 $'000
(a) Income tax recognised in profit				
Current tax expense				
- in respect of the current year	2,790	2,789	2,790	2,789
- in relation to the current tax of prior year	(243)	(16)	(243)	(16)
Deferred tax expense				
- in respect of the current year	(485)	(616)	(485)	(616)
- in relation to the deferred tax of prior year	182	5	182	5
- change in tax rates	104	-	104	-
Total income tax expense	**2,348**	**2,162**	**2,348**	**2,162**
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	8,886	7,335	8,886	7,335
Income tax expense calculated at current rate	2,310	2,200	2,310	2,200
Permanent differences:				
Non-deductible expenses	3	10	3	10
Franked dividend received	(8)	(37)	(8)	(37)
	2,305	2,173	2,305	2,173
Change in tax rate	104	-	104	-
Over provision of tax in previous years	(61)	(11)	(61)	(11)
	2,348	**2,162**	**2,348**	**2,162**
(b) Current tax assets/(liabilities)				
Income tax refundable/(payable)	**72**	**(887)**	**72**	**(887)**
(c) Deferred tax assets				
Taxable and deductible temporary differences arise from the following:				
Depreciation on property, plant and equipment	211	216	211	216
Employee entitlements	738	741	738	741
Investment properties - allowances	-	(40)	-	(40)
Gains on investments in equity instrument	(289)	(241)	(289)	(241)
Impairment allowances on loans	765	743	765	743
Land and buildings	(341)	(407)	(341)	(407)
Other deferred deductibles	(80)	(100)	(80)	(100)
Payables	470	340	470	340
Provisions for decommissioning	92	94	92	94
Unearned fees	119	140	119	140
	1,685	**1,486**	**1,685**	**1,486**
(d) Movement in deferred tax asset				
Deferred tax credited/(charged) to profit or loss	303	611	303	611
Change in tax rate	(24)	-	(24)	-
Deferred tax recognised in other comprehensive income	(80)	(148)	(80)	(148)
Increase/(decrease) in deferred tax asset	**199**	**463**	**199**	**463**
(e) Franking account				
Adjusted Franking account balance as at the end of financial year	34,672	33,006	34,672	33,006

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

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

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

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

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

11. Cash and bank balances

	Consolidated		Credit Union	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Held at amortised cost:				
Notes and coins	1,194	1,508	1,194	1,508
Bank balances	14,352	14,311	14,352	14,311
Bank balances – at call	68,961	37,679	42,602	29,091
	84,507	**53,498**	**58,148**	**44,910**

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

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

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

12. Receivables other

	Consolidated 2021 $'000	Consolidated 2020 $'000	Credit Union 2021 $'000	Credit Union 2020 $'000
Accrued income	106	58	106	58
Contract receivable	504	502	504	502
Prepayments	162	58	162	58
Settlement and clearing accounts	27	1,387	27	1,387
Trade receivables	85	438	85	438
	884	**2,443**	**884**	**2,443**

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 2021

	Consolidated		Credit Union	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000

13. Investment instruments

Held at amortised cost:				
Australian Government Treasury Notes	11,999	-	11,999	-
Other ADIs	140,445	154,047	140,445	154,047
	152,444	**154,047**	**152,444**	**154,047**
Analysis by maturity:				
0–1 month	19,019	5,011	19,019	5,011
1–3 months	10,492	6,997	10,492	6,997
3–12 months	25,094	35,043	25,094	35,043
1–5 years	97,839	106,996	97,839	106,996
	152,444	**154,047**	**152,444**	**154,047**

14. Loans and advances: to Members

Held at amortised cost:				
Loans outstanding	956,568	949,031	956,568	949,031
Unearned fee income	(460)	(468)	(460)	(468)
Allowance for impairment (Note 15)	(2,922)	(2,478)	(2,922)	(2,478)
	953,186	**946,085**	**953,186**	**946,085**
Analysis of loans and advances (gross)				
By purpose:				
Residential loans	771,077	761,757	771,077	761,757
Personal loans	73,480	63,055	73,480	63,055
Credit card advances	4,286	4,207	4,286	4,207
Commercial loans	107,725	120,012	107,725	120,012
	956,568	**949,031**	**956,568**	**949,031**
By security:				
Secured by mortgage	875,075	873,774	875,075	873,774
Secured other	75,379	69,122	75,379	69,122
Unsecured	6,114	6,135	6,114	6,135
	956,568	**949,031**	**956,568**	**949,031**
By maturity:				
Overdraft	14,281	15,511	14,281	15,511
0–3 months	24,334	32,733	24,334	32,733
3–12 months	61,123	54,890	61,123	54,890
1–5 years	150,253	130,764	150,253	130,764
Over 5 years	706,577	715,133	706,577	715,133
	956,568	**949,031**	**956,568**	**949,031**

Notes to the Financial Statements
for the financial year ended 30 June 2021

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 $172.8 million (2020: $171 million) are covered by Lenders Mortgage Insurance (LMI) that reduces the Group's exposure to credit risk. Loans secured by mortgages within South Australia comprise 86.1% (2020: 86.6%) of outstanding balances.

	Consolidated		Credit Union	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Concentration of loans and advances to groups of Members having similar characteristics are:				
Police	302,375	307,530	302,375	307,530
Nurses	93,806	90,471	93,806	90,471
Others	560,387	551,030	560,387	551,030
	956,568	**949,031**	**956,568**	**949,031**

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	33,723	28,955	33,723	28,955
Undrawn credit limits and re-draw	91,148	85,158	91,148	85,158
	124,871	**114,113**	**124,871**	**114,113**

Financial Guarantees have been issued on behalf of Members totalling $665 thousand (2020: $820 thousand). These Guarantees require the Credit Union to make payment to the holder thereof, should the Member fail to make payment to the holder.

Securitised Loans

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

	2021	**2020**
	$'000	**$'000**
Securitised loans	227,532	246,732
Unremitted collections at the end of the year	3,449	2,454
Borrowings	**230,981**	**249,186**

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 an 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-month 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:

	2021	2021	2020	2020
	Probability of Default (PD)	**Loss Given Default (LGD)**	**Probability of Default (PD)**	**Loss Given Default (LGD)**
Bank Deposits	0.00%	0%	0.00%	0%
Debt Securities	0.05%	45%	0.05%	45%
Residential Home Loans and undrawn loan commitments	0.34%	5%	0.37%	5%
Personal Loans and undrawn loan commitments	0.39%	81%	0.34%	81%
Business Banking Loans and undrawn loan commitments	0.40%	5%	0.33%	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 2021 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 2008-2021 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-Value-Ratio ratios are applied to compensate for the prospect of repayment and recovery being dependent primarily on the cash flows generated by the asset, rather than the livelihood and therefore income of borrowers.

The table opposite represents the Group's total impairment provisions on debt securities, loans and advances and undrawn loan commitments by ECL stage as at 30 June 2020 and 30 June 2021, 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 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**
Stage 1 additional provision	45	-	-	**45**
Stage 2 additional provision	-	4	-	**4**
Stage 3 additional provision	-	-	7	**7**
Economic overlay	-	388	-	**388**
Total charged to income statement	**45**	**392**	**7**	**444**
30 June 2021 (**)	**517**	**1,912**	**493**	**2,922**

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 under performing 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.

30 June 2021comments

(**) – **Stage 1** – provision has increased by $45 thousand of collective allowances in respect of Loans and advances to other ADIs and Economic overlay of $30 thousand established on 30 June 2019.

Stage 2 – provision has increased by $4 thousand in relation to specific loans and the economic overlay has increased by $388 thousand in addition to the prior year economic overlay created for loans that have been identified as impaired due to COVID-19 pandemic.

Stage 3 – provision increased by $7 thousand.

Economic overlay

There is no statistically significant relationship between macro-economic variables and the Credit Union's history of credit losses and therefore these are not included as inputs in its base ECL model. This is due to PCU's limited history of credit losses. The impact of economic conditions is accordingly factored into the value of mortgaged collateral and an Economic Overlay is established.

The credit risk factors used in the ECL calculation have not had sufficient time to be responsive to the economic impact of COVID-19 due to its onset in March 2020 and related Government and RBA support measures that have continued for most of the financial year.

As a result of the limitation noted above, the impact of the COVID-19 pandemic was initially modelled through an overlay to determine an expectation of credit losses that could possibly arise on directly impacted loans. Initially, to estimate the magnitude of the overlay, PCU engaged with all its borrowers to establish those affected. Affected loans were identified and 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.

These calculated impairment allowances made up the COVID overlay, and this has been increased slightly over the financial year and is being held in place. The impact of COVID-19 will progressively flow through to the base modelling and will be offset against a release from the overlay at that time. Customers who had been impacted by the pandemic and granted payment deferral have generally resumed repayment of their loans. The resumption of repayment was during a period where there has been unprecedented government assistance provided until the last quarter of the financial year.

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Significant uncertainly regarding how the impact of the COVID-19 pandemic will evolve remains. A more lasting impact on the loan portfolio is expected that will likely result in an increase in probabilities of default and a similar increase in allowances for impairment in the future. The Credit Union continues to monitor the portfolio of customers who were affected by the pandemic and granted payment deferrals. Given the short time that has elapsed since resumption of repayment on this cohort of borrowers it is considered too soon to reassess the ability of such customers to independently meet their repayment commitments over the full term of their loans.

The outcome of stress testing conducted at the peak of repayment pauses indicated that losses on mortgage loans emerge only once property values decline by more than 20%. PCU mortgage secured loans are highly collateralised with Loan to Valuation Ratios less than 80% at origination and Lenders Mortgage Insurance is in place for loans with Loan to Valuation Ratios greater than 80%. Management have simulated a decline in property values of 20% on the COVID-19 impacted portion of the portfolio and assessed that this would result in a potential shortfall on mortgage collateral amounting to approximately 40% of the Economic Overlay if the borrowers defaulted and the collateral was sold. Since then, there has been an increase in property values that is currently more favourable to likely recovery from collateral values.

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	**872,013**	**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)**

Overdue status of loans and advances to Members	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
30 June 2021	**$'000**	**$'000**	**$'000**	**$'000**
Current	946,771	-	-	**946,771**
Overdue 0 – 29 days	1,880	905	-	**2,785**
Overdue 30 – 59 days	-	591	-	**591**
Overdue 60 – 89 days	911	1,631	-	**2,542**
Overdue more than 90 days, defaulted	-	-	3,879	**3,879**
Loans and advances outstanding	**949,562**	**3,127**	**3,879**	**956,568**
Undrawn facilities	50,885	-	-	**50,885**
Allowance for impairment	(518)	(3)	(493)	**(1,014)**
Economic overlay	(15)	(1,893)	-	**(1,908)**
Total allowance for impairment	**(533)**	**(1,896)**	**(493)**	**(2,922)**

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 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:

	2021 Loan Balances $'000	**2020 Loan Balances $'000**
Balances at 1 July	**77,018**	**4,758**
Increase in credit risk and/or credit impaired	4,961	1,967
Repaid in full	(3,536)	-
Transferred to performing (Stage 1)	(71,029)	(2,161)
COVID-19 impacted loans	-	74,681
Decrease in balances	(408)	(2,227)
Loan and advances in Stage 2 and 3 at 30 June	**7,006**	**77,018**

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

	2021 Loan Balances $'000	2020 Loan Balances $'000
Mortgage secured	4,667	63,062
Mortgage secured with LMI	72	11,989
	4,739	**75,051**

During 2020 PCU took possession of collateral a loan with the total outstanding balance at the end of 2021 of $272 thousand (2020: $357 thousand). At year end the carrying value of properties in possession amounted to $511 thousand (2020: $511 thousand).

The contractual amount outstanding on financial assets that were written off during the year and that are still subject to enforcement activity is $25 thousand (2020: $74 thousand).

	Consolidated		Credit Union	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Impairment loss recognised in the profit or loss:				
Recoveries on loans previously written off	35	33	35	33
Provisions for loan impairment - net movement	(444)	(1,575)	(444)	(1,575)
Loans written off during the year as uncollectible	(40)	(161)	(40)	(161)
Total impairment charge to profit and loss	**(449)**	**(1,703)**	**(449)**	**(1,703)**

16. Investment properties

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

During the year the Group has disposed of its remaining investment properties.

17. Property, plant and equipment

	Consolidated and Credit Union			
	Freehold land & buildings-fair value $'000	Right of use land & buildings and leasehold improvements-cost $'000	Plant and equipment-cost $'000	Total $'000
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**
Cost/fair value	9,118	4,290	4,199	**17,607**
Accumulated depreciation	(272)	(2,508)	(2,999)	**(5,779)**
Balance at 30 June 2021	**8,846**	**1,782**	**1,200**	**11,828**

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.

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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 $3.4 million (2020: $3.7 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

18. Deposits

	Consolidated		Credit Union	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Measured at amortised cost:				
Members' deposits	1,050,990	1,042,337	1,050,990	1,042,337
Redeemable preference shares	391	389	391	389
	1,051,381	**1,042,726**	**1,051,381**	**1,042,726**
Concentration of deposits				
Police	151,781	111,333	151,781	111,333
Nurses	68,967	56,124	68,967	56,124
Others	830,633	875,269	830,633	875,269
	1,051,381	**1,042,726**	**1,051,381**	**1,042,726**

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 90% (2020: 86%) of all deposits.

	Consolidated		Credit Union	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000

19. Payables due to other financial institutions

Measured at amortised cost:				
RBA Term Funding Facility	47,909	28,846	47,909	28,846
Other financial institutions	-	3,623	-	3,623
	47,909	**32,469**	**47,909**	**32,469**

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

20. Payables other and provisions

Measured at amortised cost:				
Trade payables and accruals	2,491	2,088	2,491	2,088
Lease liabilities	1,462	1,803	1,462	1,803
Settlement and clearing accounts	4,963	2,193	4,963	2,193
Total Payables other	**8,916**	**6,084**	**8,916**	**6,084**
Employee entitlements	2,839	2,468	2,839	2,468
Decommissioning commitments	354	314	354	314
Compliance and regulation	244	33	244	33
Off Balance sheet exposures	291	100	291	100
Total Provisions	**3,728**	**2,915**	**3,728**	**2,915**

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. Certain prior year accruals have been reclassified to provisions consistent with the current year presentation.

Lease liabilities - lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise from only fixed lease payments. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, if the Group changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Provisions are recognised when the Group has a present obligation, where the prepayment to settle the obligation 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.

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

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

Transactions are classified as contingent liabilities where the Group's obligations depend on uncertain future events and principally consist of obligations to third parties. Items are classified as commitments where the Group has irrevocably committed itself to future transactions. These transactions will either result in the recognition of an asset or liability in future periods.

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

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

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.

	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 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**
Transfer from retained earnings	24	-	60	-	-	**84**
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	309	-	**309**
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(80)	-	**(80)**
Changes in corporate tax rate related to revaluation of Cuscal Ltd shares	-	-	-	32	-	**32**
Changes in corporate tax rate related to property revaluation	-	-	-	48	-	**48**
Balance at 30 June 2021	**618**	**11,748**	**1,140**	**5,069**	**-**	**18,575**

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Credit Union	Capital Redemption Reserve $'000	General Reserve $'000	General Reserve for Credit Losses $'000	Revaluation Reserve $'000	Cash Flow Hedging Reserve $'000	Total Reserves $'000
Balance at 1 July 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**
Transfer from retained earnings	24	-	60	-	-	**84**
Gain arising on revaluation of Cuscal Ltd shares	-	-	-	309	-	**309**
Income tax relating to gain arising from revaluation of Cuscal Ltd shares	-	-	-	(80)	-	**(80)**
Changes in corporate tax rate related to revaluation of Cuscal Ltd shares	-	-	-	32	-	**32**
Changes in corporate tax rate related to property revaluation	-	-	-	48	-	**48**
Balance at 30 June 2021	**618**	**11,748**	**1,140**	**5,069**	**-**	**18,575**

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	
	2021 %	**2020 %**	**2021 $**	**2020 $**
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 dependents of the individual or the individual's domestic partner.

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

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	Consolidated 2021 $	Consolidated 2020 $
Key management personnel compensation		
Short-term employee benefits - including superannuation guarantee levy	2,955,181	2,682,092
Other long-term benefits - accruals for Long Service Leave	80,016	62,255
	3,035,197	**2,744,347**

	Transaction Accounts $	Investment Accounts $	Loans Accounts $
Transactions conducted on accounts of key management personnel 2021			
Balance at beginning of year*	(801,017)	(286,500)	3,059,919
Loans advanced	-	-	1,465,531
Deposits/repayments	(6,265,910)	-	(813,709)
Withdrawals	5,882,782	284,391	-
Interest paid	(5,448)	(2,891)	-
Interest charged/(received)	2,140	-	96,882
Net balance at end of year	**(1,187,453)**	**(5,000)**	**3,808,623**
Year end balances represented by:			
Deposit balances	(1,008,788)	(5,000)	-
Overdraft/loan balances	(178,665)	-	3,808,623
Net balance at end of year	**(1,187,453)**	**(5,000)**	**3,808,623**
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	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**

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

	2021 $'000	2020 $'000
Transactions within the wholly owned group:		
The equitable right to loans originated by the Credit Union were sold to the MTG PCU Trust during the year giving rise to the following intra-group transactions to which the Credit Union is a party:		
Sale of loans	47,607	153,709
Receipt of custodian and service fee	251	132
Payment of collections or loans	73,781	34,938
Payment for interest offset benefit	883	460
Receipt of note interest	2,162	2,069
Receipt of distributions from MTG PCU Trust	5,523	2,846

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

Forecasted net interest income, and thus net profit before tax, is susceptible to movements in market interest rates. Based on a 100 basis point parallel increase in the year-end yield curve, the Credit Union expects to gain approximately $0.48 million (2020: $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 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
2021					
Interest rate sensitivity gap: asset/(liability)	225,031	(126,137)	(76,477)	71,625	597
Cumulative interest rate sensitivity gap	225,031	98,894	22,417	94,042	94,639
% Of assets	18.6%	8.2%	1.9%	7.8%	7.8%
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%

d) 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 $183 million (2020: $201 million) of an RBA Repo security during liquidity crisis.

Notes to the Financial Statements

for the financial year ended 30 June 2021

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 2021							
Deposits	636,718	89,499	294,408	29,232	3,599	(2,075)	1,051,381
Payables due to other financial institutions	-	-	-	-	-	-	-
RBA Term Funding Facility	-	-	-	48,091	-	(182)	47,909
Borrowings	-	-	-	-	230,981	-	230,981
Lease liabilities	55	111	480	748	120	(52)	1,462
Payables (other)	7,454	-	-	-	-	-	7,454
Total Credit Union	**644,227**	**89,610**	**294,888**	**78,071**	**234,700**	**(2,309)**	**1,339,187**
Consolidated 2021							
Deposits	636,718	89,499	294,408	29,232	3,599	(2,075)	1,051,381
Payables due to other financial institutions	-	-	-	-	-	-	-
RBA Term Funding Facility	-	-	-	48,091	-	(182)	47,909
Lease liabilities	55	111	480	748	120	(52)	1,462
Payables (other)	7,454	-	-	-	-	-	7,454
Total Consolidated	**644,227**	**89,610**	**294,888**	**78,071**	**3,719**	**(2,309)**	**1,108,206**
Credit Union 2020							
Deposits	534,012	93,086	373,535	43,947	3,340	(5,194)	1,042,726
Payables due to other financial institutions	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 financial institutions	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**

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.

Notes to the Financial Statements

for the financial year ended 30 June 2021

e) 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:

	Consolidated		Credit Union		
	2021		2021		
	Carrying amount	Fair value	Carrying amount	Fair value	Fair value hierarchy
	$'000	$'000	$'000	$'000	
Financial assets					
Cash and bank balances	84,507	84,507	58,148	58,148	Level 1
Investment instruments	152,444	153,499	152,444	153,499	Level 2
Loans and advances: to Members	953,186	946,589	953,186	946,589	Level 3
Cuscal Ltd shares	2,249	2,249	2,249	2,249	Level 3
Notes MTG PCU Trust Repo Series No.1	-	-	257,340	257,340	Level 2
Receivables other	884	884	884	884	Level 1
Total Financial Assets	**1,193,270**	**1,187,728**	**1,424,251**	**1,418,709**	
Financial liabilities					
Deposits	1,051,381	1,052,342	1,051,381	1,052,342	Level 2
Payables due to other financial institutions	47,909	47,489	47,909	47,489	Level 2
Borrowings	-	-	230,981	230,981	Level 2
Payables other	8,916	8,916	8,916	8,916	Level 1
Total Financial Liabilities Consolidated	**1,108,206**	**1,108,747**	**1,339,187**	**1,339,728**	

Notes to the Financial Statements

for the financial year ended 30 June 2021

	Consolidated		Credit Union		
	2020		2020		
	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
Investment instruments	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 financial institutions	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**	

f) Investment instruments

	Consolidated		Credit Union	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Cuscal Ltd shares	2,249	1,940	2,249	1,940
Notes MTG PCU Trust Repo Series No.1	-	-	257,340	257,774
	2,249	**1,940**	**259,589**	**259,714**

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 change in the net fair value of the Cuscal Ltd shares represents the fair value gain of $309 thousand for the year and is reflected in the other comprehensive income.

Composition of MTG PCU Trust Repo Series No.1 is represented by $239.4 million (2020: $239.4 million) of Class A notes and $17.6 million (2020: $17.6 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 2021

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 14.51% (2020: 14.00%). The Credit Union's capital adequacy at year-end amounted to 14.51% (2020: 14.00%).

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	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Common Equity Tier 1 Capital ("CETI")				
Retained Earnings	77,103	70,649	77,103	70,649
Accumulated other comprehensive income ("OCI") and reserves:				
Total Accumulated OCI and reserves (*)	12,366	12,342	12,366	12,342
Revaluation reserves	5,069	4,760	5,069	4,760
Accumulated OCI and reserves	**17,435**	**17,102**	**17,435**	**17,102**
Deferred fee income	459	468	459	468
	17,894	**17,570**	**17,894**	**17,570**
CETI Capital before regulatory adjustments	94,997	88,219	94,997	88,219
Regulatory Adjustments:				
Other Intangibles	757	907	757	907
Cash-flow hedge reserve	-	-	-	-
Investments in other ADIs - Cuscal Ltd	2,249	1,940	2,249	1,940
DTA arising from temporary differences	1,685	1,486	1,685	1,486
Total Regulatory Adjustments to CETI	**4,691**	**4,333**	**4,691**	**4,333**
Common Equity Tier 1 Capital	90,306	83,886	90,306	83,886
Additional Tier 1 Capital	-	-	-	-
Tier 1 Capital	**90,306**	**83,886**	**90,306**	**83,886**
General reserve for credit losses	1,140	1,080	1,140	1,080
Tier 2 Capital	**1,140**	**1,080**	**1,140**	**1,080**
Total Capital	91,446	84,966	91,446	84,966
Total Risk-Weighted Assets based on APRA standards	**630,071**	**607,005**	**630,071**	**607,017**
Capital Ratios and Buffers				
Common Equity Tier 1 (as a % of risk-weighted assets)	14.33%	13.82%	14.33%	13.82%
Tier 1 (as a % of risk-weighted assets)	14.33%	13.82%	14.33%	13.82%
Total Capital (as a % of risk-weighted assets)	14.51%	14.00%	14.51%	14.00%
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	7.33%	6.82%	7.33%	6.82%

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

Total Accumulated OCI and reserves	18,575	18,182	18,575	18,182
Revaluation reserves	(5,069)	(4,760)	(5,069)	(4,760)
General reserve for credit losses	(1,140)	(1,080)	(1,140)	(1,080)
Total Accumulated OCI and reserves for capital	**12,366**	**12,342**	**12,366**	**12,342**

Notes to the Financial Statements

for the financial year ended 30 June 2021

25. Significant Alliances

The Group has a significant alliance with Cuscal Ltd. Cuscal Ltd operates a financial switching service allowing access to payment and settlement services such as eftpos, direct entry, BPAY®, 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 the reporting date which would have a material impact on the Group's financial statements.

Directors' Declaration

for the financial year ended 30 June 2021

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, 29 September 2021

KPMG

Independent Auditor's Report

To the members of Police Credit Union Limited

Opinion

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

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

- giving a true and fair view of the Group's and the Company's financial position as at 30 June 2021 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 2021;
- 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 the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our 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.

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.

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Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; 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 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

29 September 2021

Proud Major Sponsors of

Major Business Partners

Auditors

KPMG
151 Pirie St
Adelaide SA 5000

Solicitors

Piper Alderman
16/70 Franklin St
Adelaide SA 5000

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, ADELAIDE SA, 5000

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