



# Securing your future

**Annual Report 2011**

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**Chairman**

Lionel D. Allemand MAICD

**Deputy Chairman**

John W. Capewell Grad. Dip. Applied Finance and Investment, Dip. Company Directorship, GAICD, Grad. Cert. Commercial Law, A Fin.

**Directors**

Morris W. J. Buchan MAICD

Christine P. McIntyre APM, MAICD

P. John Mugavin Grad. Dip. Public Admin., FAICD

David R. Boell B.Bus., AAICD

Wayne G. Taylor M Ed. (Monash), Grad. Dip. Public Admin., Dip. Training (VU), Dip. Company Directorship, GAICD

**Chief Executive Officer**

Peter Kempster B.Com (Hons), MBA (Distinction), FCPA, ACA, MAICD

**Executive Manager – Finance**

Paul Manning B.Sc. (Hons), ACA

**Executive Manager – Marketing and Sales**

Melanie Dilges B.App.Sc., MBA (Marketing)

**Executive Manager – Corporate Governance, Company Secretary**

Graham Ashworth LLB (Hons), MBA, Grad. Dip. CSA

**Executive Manager – Technology and Telecommunications**

Graham Miller Cert. Bus. (Acc.) Grad. Dip. (A.I.S.) MACS PCP; MISACA

**Auditors****KPMG**

147 Collins Street, Melbourne 3000

**Solicitors****Wisewould Mahony**

413 Collins Street, Melbourne 3000

**Banker**

Westpac Banking Corporation

**Affiliations**

Abacus, Australian Mutuals

Indue Ltd.



**Chairman**  
Lionel D. Allemand



**Deputy Chairman**  
John W. Capewell

## Growth in our Balance Sheet, a strong Profit after Tax and a large increase in Membership underpin another excellent year for Police Credit.

During the year, Police Credit's balance sheet grew significantly to over \$1.038 billion, as at 30 June 2011. This is a major milestone in Police Credit's 37 year history. This growth, approximately 13% year on year, has been largely driven by members investing heavily in our Bonus Saver account, Term Deposits (now available on-line) and other deposit products. During the year, total deposits have increased 15% to \$881m, which is a clear reflection of the competitive rates we offer. It will probably come as no surprise then that, in June 2011, Police Credit was voted in the Top Five Credit Unions in Australia by Money Magazine.

Police Credit's financial performance also remains strong, returning a Profit after Tax of over \$9.9m. This is despite the fact that 2010/11 year has been a difficult lending environment, driven partially by concerns in the local housing market and uncertainties in the US and Europe. Whilst these market concerns have continued into 2011/12, we are confident Police Credit will remain profitable and hence build reserves to support future lending.

One of the most pleasing aspects of 2010/11 has been the increase in membership, with Police Credit having over 91,000 members, as at 30 June 2011. We believe this confirms that you, our members, can see the real benefits of being a part of a Credit Union and see us as a real alternative to the Banks. Our drive to refinance members who have loans from Banks, most recently in the "Switch and Save" campaign, has also been very popular and has assisted us in being the one-stop shop for all our members' banking needs.

During the year, we have had a number of product initiatives, most notably our range of products focused on the 18-25 year old segment and personal insurance products specifically tailored to Ambulance employees. We intend to continue this innovation to ensure that our products and services are relevant to our member base. In addition, this year has seen our member relationship managers build strong relationships with the broader Government and Hospital networks. It is envisaged that our membership growth will continue to support further product development.



**Director**  
Morris W. J. Buchan



**Director**  
Christine P. McIntyre



**Director**  
P. John Mugavin



**Director**  
David R. Boell



**Director**  
Wayne G. Taylor

As with last year, On-line and Mobile Banking continue to be very popular. This, combined with members moving to on-line statements / communications, has ensured that Police Credit's expenses remain at reasonably low levels. Being a member based organisation, lower expenses naturally means competitive products and services for all our members.

On other news, over the year Board composition has remained stable and all members have worked very hard on Audit and Risk Management Committee, Corporate Governance Committee, as well as at Board meetings themselves.

It is also very important that we recognise the continued support of The Police Association and Victoria Police, who have both been keen supporters of Police Credit since inception.

At this time, it is only right that I thank the Board, staff and management for their contribution and professionalism during the year. Member feedback continues to inform us that you appreciate the personal service provided by our staff.

Thank you, our members, for all your continued support, without which we could not continue to operate or offer the competitive suite of products that is currently available.

**LIONEL D. ALLEMAND**  
Chairman



**Chief Executive Officer**  
Peter Kempster

## Our Products and Services are being improved to benefit You.

**Police Credit is a strong and profitable financial institution.** Earlier this year our assets exceeded the \$1 billion milestone. Our capital adequacy and liquidity ratios are better than those of major banks. Our profitability is strong and sufficient to finance future growth. Our growth and status reflects the trust and confidence you, our members, place in us and is also a tribute to staff, past and present. It confirms we are a real alternative to the major banks for all your personal banking and insurance.

### **Over 2010/11 we introduced a range of product and service innovations for your use:**

- Over 16,000 of you are enjoying mobile banking;
- For those of you travelling overseas, you can now order foreign currency cash via our web site, or take out our new Travel Loan;
- EzePac was added as a new 'all in one' banking package;
- You can now manage your term deposits and member details online;
- Retirement Savings Accounts now have both fixed and variable deposit options;
- A group personal risk insurance product was developed to protect Ambulance union members;
- To further protect against fraud, we brought you 'Verified by Visa', CAPTCHA and AVG's discounted internet security offer.

### **Meeting the needs of 16-25 year olds received particular focus:**

- Fee free banking, always provided to those under 18, was extended to students and apprentices under 25;
- A range of new lending products was developed, including a Student Loan, Job Starter Loan and My First Car Loan (with a lower interest rate for 'safe' cars).

Our **branches at World Trade Centre and Monash Medical Centre were upgraded.** Both were re-opened in brighter and better locations, and contain internet banking facilities for members, pin change terminals for chip cards and free WiFi for members' use.

Our **contributions to the community continued throughout the year** and we were honoured to receive the **Frank Green Memorial Award** in July 2010 *“in recognition of outstanding and generous contributions to the Victoria Police Blue Ribbon Foundation and Blue Ribbon Day since its inception in 1999. Our partnership has resulted in the delivery of significant life saving facilities in public hospitals that are named in memory of members of the Victoria Police who have been killed in the line of duty”*. This award is named after the late Frank Green, a founding Director of Blue Ribbon who is perhaps best remembered as Assistant Commissioner Traffic responsible for introducing initiatives that saved lives and reduced serious injury through road trauma.

In June 2011 **Money Magazine rated us in the top 5 credit unions in Australia.**

So it's been a busy year!

**In 2011/12 we will continue to improve our products and services.** Among other things we will commence social networking, developing online material to increase financial education and literacy. For those of you looking to build your wealth, we'll also be extending our range of investment oriented lending packages.

The innovations we provide to you, and our community assistance, are made possible by our growth and strong financial position. **Please continue to recommend us** to your family, friends, and work colleagues. We welcome new members. Similarly, **please continue to save and borrow from us.** We do not pay dividends to shareholders, so the more you use us, the more we reinvest in competitive products, services and future lending growth. Call us – we are here for you and can assist you to move all your banking to Police Credit.

**Thank you for your continued support of Police Credit.**



**PETER KEMPSTER**  
Chief Executive Officer

**Executives**

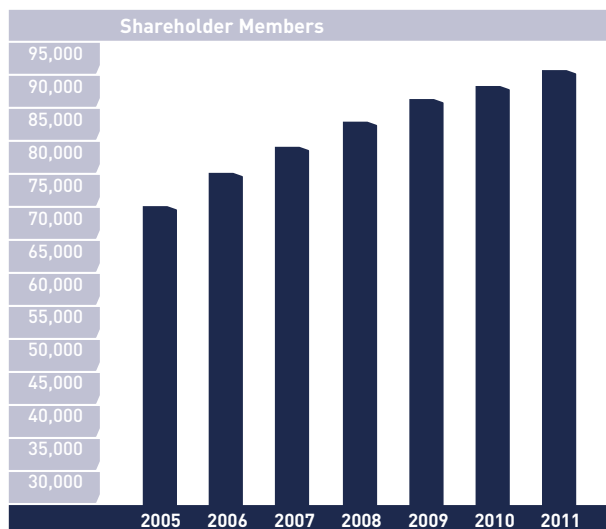
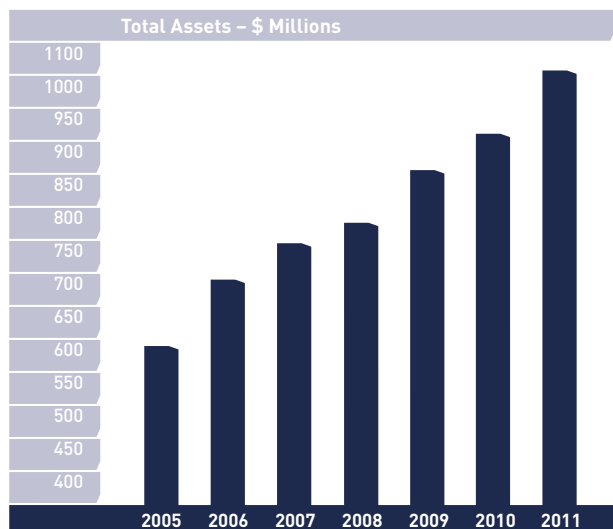
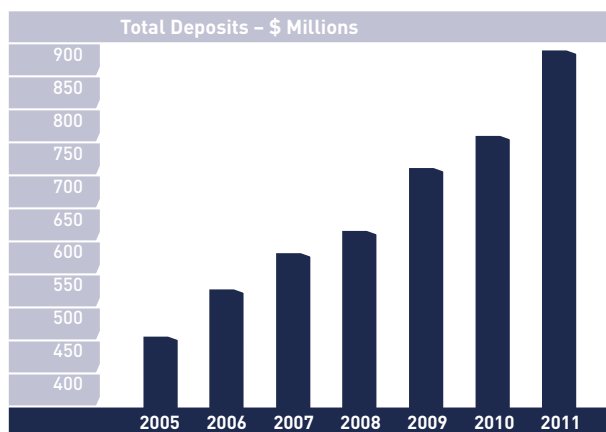
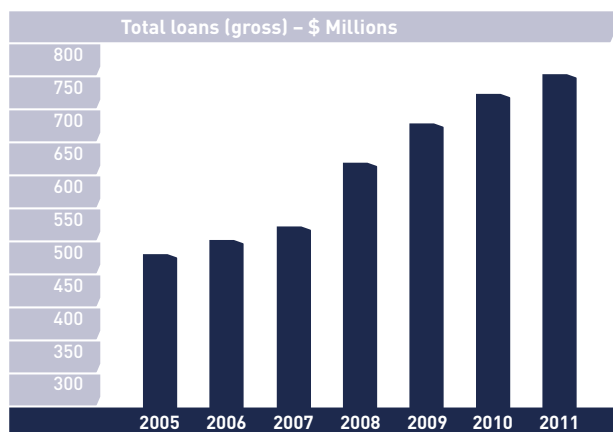
Back Row: Paul Manning, Peter Kempster and Graham Miller  
Front Row: Graham Ashworth and Melanie Dilges



## → RESULTS

	HIGHLIGHTS 2010-2011	HIGHLIGHTS 2009-2010	GROWTH PERCENT
Shareholder Members	<b>91,107</b>	88,161	<b>3.34%</b>
Deposits \$'000	<b>881,423</b>	765,092	<b>15.20%</b>
Assets \$'000	<b>1,038,098</b>	918,124	<b>13.07%</b>
Members' Funds \$'000	<b>105,397</b>	95,481	<b>10.39%</b>
Profit After Tax \$'000	<b>9,916</b>	10,190	<b>-2.69%</b>
Loans Outstanding (Gross) \$'000	<b>751,013</b>	726,873	<b>3.32%</b>

The value of loans funded since inception (2 December 1974), totals \$3,685,347,710.



## Corporate Governance Structure

The Board has been active in continuing best practice standards of corporate governance, which are in place and the Corporate Governance Committee is accountable for the maintenance and delivery of these standards. The Board is confident that the current disciplined corporate governance structure will continue to ensure appropriate development, prioritisation and the delivery of business strategies, as well as consistent and informed decision making in pursuit of the organisation's objectives.

## Board Performance

The Board acknowledges its accountability to Police Credit members and aims to ensure Police Credit operates in an ethical and responsible way in delivering a real alternative to banks and other profit driven competitors. In order to do so the Board has adhered to a Statement of Corporate Governance Principles, which is reviewed annually, and underpins the following duties carried out by the Board:

- improving organisational performance by the adoption and monitoring of corporate strategies, budgets, plans, policies and performance;
- setting strategic directions, targets and monitoring the performance of executive management;
- providing processes for monitoring, reviewing and enhancing the performance of each Board member and the Board as a group;
- ensuring there are adequate plans and procedures for succession planning;
- identifying and monitoring the principal business and prudential risks;
- monitoring the financial performance of Police Credit;
- ensuring compliance in both letter and spirit with Police Credit's corporate and legal responsibilities; and
- ensuring business operations are undertaken in an honest, open and ethical manner.

The Board has delegated responsibility for management of the day-to-day activities of Police Credit to its Chief Executive Officer and executive management team.

## Board Evaluation

The Board assesses its effectiveness each year through an evaluation procedure, which includes:

- documented performance evaluation and review of each Board member and their contribution;
- documented evaluation of the Board performance as a whole;
- the appropriateness of meeting schedules and assessment of the relevance, content and standard of Board material;
- the identification and appropriate management of business and prudential risks facing Police Credit; and
- assessment of the necessary range and standard of skills needed at Board level.

Additionally, the Board assesses annually the performance of the Chief Executive Officer and key risk management personnel against agreed objectives and key performance criteria.

All Board members participate in ongoing development through formal training, information sessions on industry and regulatory developments and attendance at industry forums dealing with matters relevant to the business operations of Police Credit.

### **Board Committees**

To assist the Board in fulfilling its responsibilities, the Board has established a number of Committees. Each Committee has its own principal responsibilities. The Board currently has four permanent committees, the Audit and Risk Management Committee, Corporate Governance Committee, Remuneration Committee and the Nominations Committee.

In accordance with good governance principles, during the year J. W. Capewell moved from the Audit and Risk Management Committee to the Corporate Governance Committee, replacing M. W. J. Buchan who stepped aside after eight years as a Corporate Governance Committee member.

#### **Audit and Risk Management Committee**

*Chairman:* P. J. Mugavin

*Members:* D. R. Boell (from 23 November 2010)  
W. G. Taylor  
J. W. Capewell (until 23 November 2010)

The principal responsibilities of the Audit and Risk Management Committee are to:

- oversee and appraise the quality of the audits conducted by the Company's external auditor, internal auditor and compliance staff;
- maintain by scheduling regular meetings, open lines of communication among the directors, the internal auditor or compliance staff and the external auditor to exchange views and information;
- serve as an objective party to review the financial information presented to shareholders and regulators; and
- determine the adequacy of the Company's administrative, operating and accounting controls; review annually:
  - (i) risk policies;
  - (ii) internal audit and compliance – monitor capital adequacy and liquidity and adherence to prudential standards;
  - (iii) other policies [as required].

#### **Corporate Governance Committee**

*Chairman:* C. P. McIntyre

*Members:* L. D. Allemand  
J. W. Capewell (from 23 November 2010)  
M. W. J. Buchan (until 23 November 2010)

The principal responsibilities of the Corporate Governance Committee are to:

- examine the procedures in place to ensure the Company's operations and business risks are managed effectively in the interests of members;
- ensure that such procedures fully comply with the legal obligations of the Company and its Statement of Corporate Governance Principles;
- review the Statement of Corporate Governance Principles annually to ensure that it remains relevant in accordance with good corporate governance principles;
- determine the procedures that require the highest standards of ethical conduct;
- oversee prudential standards relating to the fitness and propriety of Directors and responsible officers.

The findings, while carrying out these responsibilities, together with any recommendations are reported to the full Board for consideration in regard to implementation.

#### **Remuneration Committee**

*Chairman:* J. W. Capewell

*Members:* P. J. Mugavin  
L. D. Allemand

The Remuneration Committee recommends to the Board for approval:

- the compensation, both fixed and variable rewards of the Chief Executive Officer, his direct reports and staff whose primary role is risk and financial control;
- determine the maximum directors fees and mechanisms for allocating those fees (these will be recommended to members for approval at each Annual General Meeting of the Company).

#### **Nominations Committee**

*Chairman:* J. W. Capewell

*Members:* P. Crocker (Independent Member)  
R. Powell (Independent Member)

The Australian Prudential Regulation Authority ("APRA") standards on fitness and propriety require a director to understand the responsibilities of the role and have a general knowledge of the institution, its business and its regulatory environment. Police Credit as a regulated institution is mandated to consider the nature and extent of a number of matters in conducting a fit and proper assessment of director nominees, including the person's character, competence and experience relative to the duties involved and whether that person possesses the necessary skills, knowledge, expertise, diligence and soundness of judgement to undertake the role.

In order to assist director nominees in understanding and complying with these requirements, Police Credit's Nominations Committee meets with and assesses all nominees for a director position.

The chairman of this Committee is John Capewell, who is supported by two advisors, independent of Police Credit. The independent advisors for 2010/11 were Peter Crocker, chairman of Mecu Limited, with 26 years experience as a credit union director and Robert Powell, a director and former chairman of Credit Union Australia, with 33 years experience as a credit union director.

## → DIRECTORS' REPORT

The Directors present their report on the financial statements of Police Association Credit Co-operative Limited (the Company) for the year ended 30 June 2011 and Auditor's Report thereon

### 1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

**Lionel D. Allemand** MAICD

Chairman. Age 68. Experience – Director since 1986. Member Corporate Governance Committee. Member Remuneration Committee. Chairman since 1996.

**John W. Capewell** Grad. Dip. Applied Finance and Investment. Dip. Company Directorship GAICD

Deputy Chairman. Age 48. Experience – Director since 1999. Member Audit and Risk Management Committee (until 23 November 2010). Chairman Remuneration Committee. Chairman Nominations Committee. Member of Corporate Governance Committee (from 23 November 2010).

**P. John Mugavin** Grad Dip Public Admin FAICD

Director. Age 57. Experience – Director since 1998. Chairman Audit and Risk Management Committee. Member Remuneration Committee.

**Morris W. J. Buchan** MAICD

Director. Age 78. Experience – Director since 1974. Member Corporate Governance Committee (until 23 November 2010).

**Christine P. McIntyre** APM, MAICD

Director. Age 60. Experience – Director since 1996. Chairman Corporate Governance Committee.

**Wayne G. Taylor** M Ed. (Monash), Grad. Dip. Public Admin., Dip. Training (VU), GAICD

Director. Age 55. Experience – Director since 2009. Member Audit and Risk Management Committee.

**David R. Boell** B.Bus AAICD

Director. Age 42. Experience – Director since 2009. Member Audit and Risk Management Committee (from 23 November 2010)

### Company Secretary

**Mr. Graham Ashworth** LLB (Hons), MBA, Grad. Dip. CSA

### Interests in the shares of the Company and related bodies corporate:

POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED \$1 WITHDRAWABLE SHARES

Mr. L. D. Allemand	10
Mr. J. W. Capewell	10
Mr. P. J. Mugavin	10
Mr. M. W. J. Buchan	10
Ms. C. P. McIntyre	10
Mr. W. G. Taylor	10
Mr. D. R. Boell	10

## Directors' Meetings

During the financial year, 12 meetings of Directors, 4 Corporate Governance Committee, 5 Audit and Risk Management Committee, 2 Remuneration Committee and 1 Nomination Committee meetings were held. The number of meetings attended by each director was as follows:

A = Meetings held during members' tenure B = Meetings attended

DIRECTOR	BOARD MEETINGS		AUDIT AND RISK MANAGEMENT COMMITTEE MEETINGS		CORPORATE GOVERNANCE COMMITTEE MEETINGS		REMUNERATION COMMITTEE MEETINGS		NOMINATIONS COMMITTEE MEETINGS	
	A	B	A	B	A	B	A	B	A	B
Mr. L. D. Allemand	12	12	–	–	4	4	2	2	–	–
Mr. J. W. Capewell	12	11	2	2	1	1	2	2	1	1
Mr. P. J. Mugavin	12	12	5	5	–	–	2	2	–	–
Mr. M. W. J. Buchan	12	12	–	–	3	3	–	–	–	–
Ms. C. P. McIntyre	12	12	–	–	4	4	–	–	–	–
Mr. W. G. Taylor	12	12	5	5	–	–	–	–	–	–
Mr. D. R. Boell	12	12	3	2	–	–	–	–	–	–

## 2. Principal Activities

The principal activities during the year were the provision of deposit facilities and the granting of loans.

## 3. Results of Operations

Profit after tax of the Company for the financial year after income tax was \$9,916,497 (2010: \$10,189,618).

## 4. Review of Operations

### Growth

Over the past 12 months assets increased by 13.1%. Deposits increased by 15.2% reflecting continued member support. Loan demand grew slightly compared with the prior year, with gross loans increasing by 3.3%.

During the year 5,777 new members were admitted reflecting continuing interest within the Company's target markets in the products and services offered by Police Credit and the success of new member campaigns.

### Profitability

Profit for the year after income tax was \$9.9 million, a decrease of 3% over the previous year. Net Interest Income for the year was \$29.8 million, an increase of 1% over the previous year. Operating expenses for the year were \$22.8 million, an increase of just over 4% compared to the previous year.

#### **4. Review of Operations (continued)**

##### **Capital Adequacy**

As a mutual financial institution Police Credit is reliant on retained earnings as the major source of its capital. Therefore, it is necessary to ensure profits increase in line with asset growth to maintain an adequate level of capital.

Capital adequacy remained consistent during the year from 20.9% in 2010 to 20.8% in 2011 of risk-weighted assets, significantly above the 9% minimum level required to be maintained pursuant to the Australian Prudential Standards, as determined by APRA.

##### **Products and Services**

Police Credit offers financial services and products to our members. During the year the number of products and services increased with the introduction of EzePac, an all-in-one banking package, a Travel Loan and the ability to order foreign currency cash from our website.

Additionally, special emphasis was also placed on the 16-25 age group, where a range of products were launched including a Student Loan, a Job Starter Loan and My First Car Loan.

#### **5. Dividends**

No dividends have been paid or declared since the end of the previous financial year (2010: Nil).

#### **6. Share Issues**

The only shares issued by the Company during the year were 57,770 \$1 redeemable preference shares, issued to members in the normal course of business. Note that there were 28,310 \$1 redeemable preference shares redeemed during the year.

#### **7. State of Affairs**

There are no matters or circumstances that have arisen during the financial year that have significantly affected or may significantly affect:

- (i) The operations of the Company;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Company in future financial years.

#### **8. Directors' Benefits**

Neither during the financial year nor since the end of the financial year has a Director received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received, or due and receivable, by Directors shown in the Company financial statements) because of a contract made by the Company, or a related body corporate with a Director or with a firm of which a Director is a member, or with an entity in which the Director has a substantial interest.

## 9. Rounding Off

Amounts in the financial statements have been rounded to the nearest thousand dollars (unless otherwise stated) in accordance with class order 98/100, dated 10 July 1998.

## 10. Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## 11. Likely Developments

Police Credit plans to continue its investment in new products and services to better support our members and ensure that we remain competitive. As a result, Police Credit plans to continue to invest in the Company's information technology system.

Police Credit will shortly launch a social networking program. This will include the development of a new micro site to support the financial education and literacy of our members. Additionally, there will be a focus on delivering further products and services, aimed at our members who are aiming to build wealth, by offering a range of investment related lending products.

## 12. Indemnification and Insurance

During the year a premium was paid in respect of a contract insuring directors and officers of the Company against liability. The officers of the Company covered by the insurance contract include the Directors, executive officers, Secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of the liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance contract has been provided for the benefit of the auditors of the Company.

## 13. Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 14 and forms part of the Directors' report for the financial year ended 30 June 2011.

Signed this 20th day of September 2011, in accordance with a resolution of the Board of Directors.



**L. D. ALLEMAND**  
Director



**J. W. CAPEWELL**  
Director

→ **LEAD AUDITOR'S INDEPENDENCE DECLARATION**  
(under Section 307C of the Corporations Act 2001)

**TO THE DIRECTORS OF POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED**

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 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



**Michelle Hinchliffe**  
*Partner*

Dated at Melbourne this 20th day of September 2011.

**STATEMENT OF COMPREHENSIVE INCOME** ←  
for the Year Ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Interest income	4a	<b>66,993</b>	53,805
Interest expense	4b	<b>(37,182)</b>	(24,257)
Net interest income		<b>29,811</b>	29,548
Other income	4c	<b>6,343</b>	6,105
Total income		<b>36,154</b>	35,653
Impairment losses on loans and advances	4d	<b>(16)</b>	(378)
Other expenses	4e	<b>(22,776)</b>	(21,808)
Profit before income tax expense		<b>13,362</b>	13,467
Income tax expense	5	<b>(3,446)</b>	(3,277)
Profit for the period		<b>9,916</b>	10,190
Other comprehensive income		-	-
Total comprehensive income		<b>9,916</b>	10,190
Total comprehensive income available to members		<b>9,916</b>	10,190

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

→ **BALANCE SHEET**  
as at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Assets</b>			
Cash and Cash Equivalents	6	<b>7,594</b>	13,128
Receivables Due from Other Financial Institutions	7	<b>273,220</b>	172,753
Accrued Receivables and Other Assets	8	<b>2,620</b>	1,708
Loans and Advances (Net)	9	<b>750,491</b>	726,218
Other Investments	10	<b>2,419</b>	2,419
Property, Plant and Equipment	11	<b>430</b>	418
Intangible Assets	12	<b>125</b>	261
Deferred Tax Asset	5	<b>1,199</b>	1,219
<b>TOTAL ASSETS</b>		<b>1,038,098</b>	918,124
<b>Liabilities</b>			
Deposits	13	<b>881,423</b>	765,092
Payables	14	<b>6,296</b>	5,265
Borrowings	15	<b>41,492</b>	49,151
Current Tax Liability		<b>1,038</b>	778
Provisions	16	<b>2,452</b>	2,357
<b>TOTAL LIABILITIES</b>		<b>932,701</b>	822,643
<b>NET ASSETS</b>		<b>105,397</b>	95,481
<b>Members' Funds</b>			
Reserves		<b>15,324</b>	15,309
Redeemed Capital Reserve		<b>248</b>	220
Retained Earnings		<b>89,825</b>	79,952
<b>TOTAL MEMBERS' FUNDS</b>		<b>105,397</b>	95,481

*The above balance sheet should be read in conjunction with the accompanying notes.*

**STATEMENT OF CHANGES IN EQUITY** ←  
for the Year Ended 30 June 2011

	General Reserve \$'000	General Reserve for Credit Losses \$'000	Redeemed Preference Share Capital Account \$'000	Retained Earnings \$'000	Total Member Funds \$'000
Balance as at 1 July 2009	15,000	281	196	69,814	85,291
Increase in reserve during the year	-	28	-	(28)	-
Transfer from retained earnings	-	-	24	(24)	-
Profit or loss	-	-	-	10,190	10,190
<b>Balance as at 30 June 2010</b>	<b>15,000</b>	<b>309</b>	<b>220</b>	<b>79,952</b>	<b>95,481</b>
Balance as at 1 July 2010	15,000	309	220	79,952	95,481
Increase in reserve during the year	-	15	-	(15)	-
Transfer from retained earnings	-	-	28	(28)	-
Profit or loss	-	-	-	9,916	9,916
<b>Balance as at 30 June 2011</b>	<b>15,000</b>	<b>324</b>	<b>248</b>	<b>89,825</b>	<b>105,397</b>

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

→ **STATEMENT OF CASH FLOWS**  
for the Year Ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		66,290	53,681
Interest paid		(36,541)	(24,090)
Other income received		6,346	5,945
Cash payments to suppliers and employees		(22,084)	(21,374)
Net (increase) in loans and advances		(30,504)	(64,265)
Net increase in deposits		116,297	46,199
Net decrease/(increase) in receivables due from other financial institutions		(100,467)	3,895
Income tax paid		(3,096)	(4,213)
Net Increase/(decrease) in settlement accounts		(1,443)	3,483
<b>Net Cash outflow provided by Operating Activities</b>	17(ii)	<b>(5,202)</b>	(739)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales of property, plant and equipment		11	81
Payments for property, plant and equipment		(225)	(143)
Capitalisation of other assets		(152)	(81)
<b>Net Cash outflow used in Investing Activities</b>		<b>(366)</b>	(143)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in member shares		34	30
<b>Net Cash inflow provided by Financing Activities</b>		<b>34</b>	30
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS HELD</b>		<b>(5,534)</b>	(852)
Cash and cash equivalents at Beginning of Financial Year		13,128	13,980
<b>Cash and cash equivalents at End of Financial Year</b>	17(i)	<b>7,594</b>	13,128

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## **1. Reporting Entity**

Police Association Credit Co-operative Limited (the "Company") is a company domiciled in Australia.

The Company primarily is involved in the raising of funds as authorised by the Prudential Standards administered by APRA and the Banking Act 1959, and the application of those funds in providing financial accommodation to members.

## **2. Basis of Preparation**

### **(a) Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Company also complies with the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

The financial statements are authorised for issue by the Directors on 20 September 2011.

### **(b) Basis of Measurement**

The financial statements have been prepared on the historical cost basis, except for investments, which are stated at fair value.

### **(c) Functional and Presentation of Currency**

The financial statements are presented in Australian dollars, which is the Company's functional currency. Amounts in the financial statements have been rounded to the nearest thousand dollars (unless otherwise stated) in accordance with class order 98/100 dated 10 July 1998.

Note that the Balance Sheet is stated in order of liquidity.

### **(d) Use of Estimates and Judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 5 – Income tax in relation to deferred tax
- Note 9(e) – Provision for Impairment of loans and advances
- Note 16 – Provisions
- Note 21 – Financial Instruments

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in the Company's financial statements.

#### **(a) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 3(h)).

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

→ Plant and Equipment	4-12 years
→ Leasehold improvements	5-10 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

#### **(b) Investments**

All purchases and sales of investments are recognised on the trade date i.e. the date that the Company commits to purchase or sell the assets. Investments are initially recognised at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs.

Investments in equity securities are classified as available for sale assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Shares in unquoted equities, whose fair value cannot be reliably estimated, are valued at cost. Subordinated deferred deposit is valued at cost.

#### **(c) Trade and other receivables**

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy 3(h)).

#### **(d) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short-term bills and call deposits.

### 3. Significant Accounting Policies (continued)

#### (e) Loans and advances

Loans and advances include home loans, commercial loans, personal loans and other forms of retail lending. Loans and advances are initially recorded at fair value, including direct and incremental transaction costs. They are subsequently valued using the effective yield method.

The Company's policy on the impairment of financial assets is covered in accounting policy 3(h).

APRA requires Authorised Deposit-taking Institutions to maintain a General Reserve for Credit Losses for regulation purposes as a reserve account in Equity. The Company maintains such a reserve at 0.04% of total loans and advances (other than securitised loans), including available redraw balances and off balance sheet irrevocable commitments. Movements in the reserve are adjusted against Retained Earnings.

Loans relating to the Trinity Mortgage Origination Trust No. 1 (SPE) are recognised in the balance sheet with a corresponding increase in loans due to the SPE which are classified as borrowings. Participation in any new loan securitisation program/structure will need to be assessed at each balance date. Interest income relating to the SPE mortgage loans is recognised in the income statement using the effective interest method. Interest expense on the loan to the SPE is net of management fees. Interest expense includes fees for services to external parties providing servicing and liquidity arrangements and residual income distribution.

In applying its policies on securitised financial assets, the Company has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Company over the other entity:

- When the Company, in substance, controls the entity to which financial assets have been transferred, the entity is included in these financial statements and the transferred assets are recognised in the Company's balance sheet.
- When the Company has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Company's balance sheet.

Securitised assets are included in the balance sheet of the Company, in accordance with this policy.

### **3. Significant Accounting Policies (continued)**

#### **(f) Derecognition of financial assets and liabilities**

##### **(i) Financial assets**

Loans and advances (or, where applicable, a part of loan and advance or part of a group of similar loans and advances) are derecognised when:

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risk and rewards of the asset; or (b) has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

##### **(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### **(g) Interest-bearing borrowings**

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method with any difference between the costs and redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

### 3. Significant Accounting Policies (continued)

#### (h) Impairment

The carrying amount of the Company's assets, other than deferred tax assets (see accounting policy 3(l)), are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy 3(h)(i)).

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

#### (i) Calculation of recoverable amount

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### (ii) Reversals of impairment

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **3. Significant Accounting Policies (continued)**

#### **(i) Employee benefits**

##### **(i) Long-term service benefits**

The Company's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating to the terms of the Company's obligations.

##### **(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits are expensed based on the net marginal cost to the Company as the benefits are taken by the employees.

##### **(iii) Superannuation**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations to defined contribution plans are recognised as other staff expenses as incurred.

#### **(j) Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle an obligation and the amount can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **(k) Trade and other payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

### **3. Significant Accounting Policies (continued)**

#### **(l) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the RSA tax plus expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rules enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(m) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

#### **(n) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

##### **Interest income**

Investment income is recognised as interest accrued using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Interest receivable on investments is included in the amount of trade and other receivables in the balance sheet.

### **3. Significant Accounting Policies (continued)**

#### **(n) Revenue (continued)**

##### **Interest income (continued)**

Interest earned on loans and advances is calculated and accrued on the daily outstanding balance and is charged to a member's loan on the last day of each month. Interest on non-accrual loans is not recognised as revenue – refer to note 9(e).

##### **Lending fees**

Fee income and direct costs relating to loan origination, financing or restructuring are deferred and amortised to interest income over the life of the loan using the effective interest method. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to profit on an accrual basis.

##### **Other non-interest income**

Service charges are recognised as income when charged to the member. Insurance and other commission is recognised as income upon the provision of services.

#### **(o) Expenses**

##### **Interest expense**

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on savings is brought to account on an accrual basis. The amount of the accrual is shown as part of payables.

##### **All other operating expenses**

Operating expenses are recognised when the Company has incurred the liability for goods and services purchased.

#### **(p) Intangible assets**

Intangible assets, which consists of computer software, are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 3(h)).

##### **Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, which is between 3 and 6 years.

### **3. Significant Accounting Policies (continued)**

#### **(q) Directors' severance benefits**

A Director is entitled to a severance benefit upon ceasing as a Director of the Company equivalent to the previous two years earnings where a Director has at least nine years of service and the previous three years earnings where a Director has at least fifteen years service. Note 20(f) contains further details on when a director is not entitled to receive a severance benefit.

The Company starts provisioning for a Directors' severance benefit from their initial appointment or election. For directors with less than nine years of service the provision is calculated on a pro-rata basis of their current entitlement. For directors with at least nine years service but less than 15 years service the provision is based on their previous two years earnings plus a pro-rata amount of their third years earnings. For directors with at least fifteen years service the provision is equal to their entitlement (i.e. the previous three years earnings).

#### **(r) Redeemed capital reserve**

Redeemed capital reserve represents the amount of redeemable preference shares redeemed since 1 July 1999. The Corporations Act requires redemption of shares to be made out of profits. Since the value of the shares redeemed has been paid to members in accordance with the Constitution of the Company, the redeemed capital reserve account represents the amount of profits appropriated to the account.

#### **(s) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for the annual periods beginning after 1 July 2010, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments\*, which becomes mandatory for the Company's 2014 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

\*AASB 9 Financial Instruments details classification and measurement requirements in relation to financial instruments and supersedes the classification and measurement required for financial assets in AASB139 Financial Instruments: Recognition and Measurement.

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>NOTE 4: PROFIT</b>		
Profit before income tax has been determined after:		
<b>(a) Interest Income</b>		
Loans and Advances (other than commercial loans)	<b>51,324</b>	43,756
Commercial Loans	<b>25</b>	23
Amounts from other Financial Institutions	<b>12,934</b>	7,549
Securitised Loans	<b>2,710</b>	2,477
Total Interest Income	<b>66,993</b>	53,805
<b>(b) Interest Expense</b>		
Member Deposits	<b>34,541</b>	21,850
Securitised Loans	<b>2,641</b>	2,407
Total Interest Expense	<b>37,182</b>	24,257
<b>(c) Other Income</b>		
Fees and Commissions	<b>3,911</b>	3,640
Insurance Commissions	<b>1,929</b>	1,982
Other Income	<b>381</b>	305
Income from Property	<b>59</b>	66
Profit on Sale of Property, Plant and Equipment	<b>11</b>	83
Bad Debts Recovered	<b>52</b>	29
Total Other Income	<b>6,343</b>	6,105
<b>(d) Impairment Losses on Loans and Advances</b>		
Bad debts written off: Member Loans and Advances	<b>149</b>	169
Increase/(decrease) in Provision for Impairment	<b>(133)</b>	209
	<b>16</b>	378

	2011 \$'000	2010 \$'000
<b>NOTE 4: PROFIT (continued)</b>		
<b>(e) Other expenses</b>		
Depreciation and amortisation	<b>349</b>	554
Amounts set aside to provide for employee entitlements	<b>25</b>	78
Administration costs	<b>2,613</b>	2,676
Personnel costs	<b>9,843</b>	9,324
Superannuation	<b>587</b>	595
Supervision levy	<b>39</b>	38
Audit fees	<b>236</b>	203
Visa card costs	<b>4,568</b>	4,425
Marketing costs	<b>617</b>	676
Information technology costs	<b>1,884</b>	1,456
Operating lease rentals	<b>745</b>	727
Occupancy costs	<b>519</b>	403
Directors' fees	<b>264</b>	240
Directors' severance benefits	<b>75</b>	74
Insurance – general	<b>125</b>	114
Other expenses	<b>287</b>	225
	<b>22,776</b>	21,808

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>NOTE 5: INCOME TAX</b>		
Income Tax Expense Recognised in the Statement of Comprehensive Income		
<b>Current tax expense</b>		
Current Year	<b>3,409</b>	3,781
Under/(Over) Provided in Prior Year	<b>17</b>	(400)
	<b>3,426</b>	3,381
<b>Deferred tax expense</b>		
Origination and Reversal of Temporary Differences	<b>20</b>	(104)
Total Income Tax Expense in Income Statement	<b>3,446</b>	3,277
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>		
Profit Before Tax	<b>13,362</b>	13,467
Income tax using the domestic corporation tax rate of 30% (2010: 30%)	<b>4,009</b>	4,040
Increase in income tax expense due to:		
– Non-deductible expenses	<b>36</b>	14
Decrease in income tax expense due to:		
– Non-assessable income	<b>(388)</b>	(239)
– Difference in tax rate on RSA income	<b>(228)</b>	(138)
	<b>3,429</b>	3,677
Under/(Over)provided in prior year	<b>17</b>	(400)
Income tax expense on pre-tax net profit	<b>3,446</b>	3,277

	Assets 2011 \$'000	Assets 2010 \$'000	Liabilities 2011 \$'000	Liabilities 2010 \$'000	Net 2011 \$'000	Net 2010 \$'000
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**NOTE 5: INCOME TAX (continued)**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities  
are attributable to the following:

Provision for Impairment	(157)	(197)	-	-	(157)	(197)
Provision for Directors' Severance Benefits	(166)	(144)	-	-	(166)	(144)
Property, Plant and Equipment	(319)	(331)	-	-	(319)	(331)
Payables	(44)	(18)	-	-	(44)	(18)
Employee Entitlements	(513)	(529)	-	-	(513)	(529)
Net tax (assets)/liabilities	(1,199)	(1,219)	-	-	(1,199)	(1,219)

	Balance 1 July 2010 \$'000	Recognised in Income \$'000	Balance 30 June 2011 \$'000
<b>Movement in temporary differences during the year</b>			
Provision for Impairment	(197)	40	(157)
Provision for Directors' Severance Benefits	(144)	(22)	(166)
Property, Plant and Equipment	(331)	12	(319)
Payables	(18)	(26)	(44)
Employee Benefits	(529)	16	(513)
	(1,219)	20	(1,199)

	2011 \$'000	2010 \$'000
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**NOTE 6: CASH AND CASH EQUIVALENTS**

Cash on Hand	662	604
Deposits at Call	6,932	12,524
	7,594	13,128

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>NOTE 7: RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS</b>		
Negotiable Certificates of Deposit	<b>160,467</b>	80,000
Term Deposits	<b>112,753</b>	92,753
	<b>273,220</b>	172,753
<b>(a) Maturity Analysis</b>		
Up to 3 months	<b>169,220</b>	167,253
From 3 months to 1 year	<b>104,000</b>	5,500
	<b>273,220</b>	172,753
<b>(b) Market Value</b>		
Negotiable certificates of Deposit/Term Deposits	<b>273,220</b>	172,753
<p>In 2011, NCD's and Bank Term Deposits have an average maturity of 88 days (46 days 2010) with effective interest rates of 4.87% to 6.35% (4.77% to 6.80% 2010) p.a.</p>		
<b>NOTE 8: ACCRUED RECEIVABLES AND OTHER ASSETS</b>		
Interest receivable	<b>1,792</b>	1,089
Other	<b>828</b>	619
	<b>2,620</b>	1,708
<b>NOTE 9: LOANS AND ADVANCES</b>		
Continuing credit facilities	<b>17,003</b>	15,680
Other loans and advances	<b>700,010</b>	670,963
Directors and director-related parties	<b>182</b>	196
Securitised loans	<b>33,818</b>	40,034
	<b>751,013</b>	726,873
Provision for impairment	<b>(522)</b>	(655)
Net loans and advances	<b>750,491</b>	726,218

2011  
\$'000                  2010  
\$'000

**NOTE 9: LOANS AND ADVANCES (continued)**

**(a) Maturity analysis**

Loans will be repaid under current repayment conditions over the following periods:

Up to 3 months	<b>27,420</b>	25,268
From 3 months to 1 year	<b>25,307</b>	25,896
From 1 year to 5 years	<b>104,407</b>	104,172
Later than 5 years	<b>593,879</b>	571,537
	<b>751,013</b>	726,873

**(b) Loans by security**

Secured by mortgage	<b>689,548</b>	659,542
Secured other	<b>35,907</b>	40,425
Unsecured	<b>25,558</b>	26,906
	<b>751,013</b>	726,873

**(c) Loans by purpose**

Residential	<b>689,269</b>	659,244
Personal	<b>61,465</b>	67,331
Commercial	<b>279</b>	298
	<b>751,013</b>	726,873

**(d) Concentration of risk**

(i) As at 30 June 2011 there was no loan to any individual member which represents 10% or more of capital.	-	-
(ii) The customer or industry concentration of loans which represent in aggregate 10% or more of total loans are set out below:		
Members of Victoria Police Force	<b>267,820</b>	259,495
(iii) The geographic concentration of loans in the State of Victoria	<b>97%</b>	97%

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>NOTE 9: LOANS AND ADVANCES (continued)</b>		
<b>(e) Provision for Impairment of Loans and Advances</b>		
Balance at beginning of the year	655	446
Transfer from/(to) profit and loss account	16	378
Bad debts written off	(149)	(169)
Balance at the end of the year	522	655
The policy covering impaired loans and advances is set out in Note 3 (h).		
Non-accrual loans:		
Balances with provisions for impairment	575	856
Provision for impairment	(522)	(655)
Net non-accrual loans	53	201
Loan balances – 90 days past due	253	334
(a) Interest income on non-accrual loans	4	4
(b) Interest forgone on non-accrual loans	39	37
Further information regarding the credit quality of loans and advances to members:		
<b>(f) Loans and Advances to Members</b>		
<b>Exposure to Credit Risk – At 30 June</b>		
Neither past due nor impaired	703,473	686,538
Past due but not specifically impaired	46,965	39,479
<b>Collectively Impaired</b>		
Carrying amount	575	856
Allowance for impairment	(522)	(655)
	53	201
Total	750,491	726,218

**Note:** All provisions are considered to be collective as they are determined on a portfolio basis.

	2011 \$'000	2010 \$'000
<b>NOTE 10: OTHER INVESTMENTS</b>		
Other Financial Assets – Shares in Indue Ltd	<b>1,515</b>	1,515
Subordinated deferred deposit – Indue Ltd	<b>904</b>	904
	<b>2,419</b>	2,419

**Shares in Indue**

The Company's membership in the national business services scheme provided by Indue Ltd requires Police Credit to invest in share capital as identified. These shares are not quoted on the stock exchange and therefore do not have a recognised market value. The carrying value of these shares equates to the cost paid by the Company.

**Subordinated Deferred Deposit – Indue**

The Company has also made a subordinated deposit of \$904,000 with Indue. The interest rate payable by Indue on this deposit is at its absolute discretion. The deposit may be withdrawn by giving notice of withdrawal and subject to the rules of Indue.

**Registered Charge**

In relation to services provided to Police Credit, Indue Limited holds a fixed and floating charge over the Company's current and future assets. As at 30 June 2011, the total fixed and floating charge is \$50 million.

**NOTE 11: PROPERTY, PLANT AND EQUIPMENT**

Leasehold improvements at cost	2,177	2,172
Less accumulated depreciation	<b>(2,141)</b>	(2,111)
	<b>36</b>	61
Plant and Office Equipment at cost	<b>4,888</b>	4,775
Less accumulated depreciation	<b>(4,494)</b>	(4,418)
	<b>394</b>	357
Total	<b>430</b>	418

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

**NOTE 11: PROPERTY, PLANT AND EQUIPMENT (continued)**

	Leasehold Improvements \$'000	Plant and Office Equipment \$'000	Total \$'000
<b>2010</b>			
Movement in the carrying amounts for Leasehold Improvements and Office Equipment			
Balance at 1 July 2009	107	602	709
Additions	3	161	164
Disposals	–	(107)	(107)
Depreciation expense	(49)	(299)	(348)
<b>Carrying amount at 30 June 2010</b>	<b>61</b>	<b>357</b>	<b>418</b>

<b>2011</b>			
Movement in the carrying amounts for Leasehold Improvements and Office Equipment			
Balance at 1 July 2010	61	357	418
Additions	–	190	190
Disposals*	–	–	–
Depreciation expense	(25)	(153)	(178)
<b>Carrying amount at 30 June 2011</b>	<b>36</b>	<b>394</b>	<b>430</b>

\*A gain of \$11K has been included in the Cash Flow Statement and Note 4c relating to the sale of an asset which had been fully depreciated.

	2011 \$'000	2010 \$'000
<b>NOTE 12: INTANGIBLE ASSETS</b>		
At cost	<b>1,928</b>	1,893
Accumulated amortisation	<b>(1,803)</b>	(1,632)
Net carrying amount	<b>125</b>	261
Carrying amount at the beginning of the year	<b>261</b>	382
Additions	<b>35</b>	85
Amortisation expense	<b>(171)</b>	(206)
Carrying amount at the end of the year	<b>125</b>	261

	2011 \$'000	2010 \$'000
<b>NOTE 13: DEPOSITS</b>		
Call deposits	<b>670,478</b>	562,964
Term deposits	<b>210,071</b>	201,288
Redeemable preference shares	<b>874</b>	840
	<b>881,423</b>	765,092

**(a) Maturity Analysis**

Deposits are repayable over the following terms:

On call	665,392	556,039
Up to 3 months	83,209	81,987
From 3 months to 6 months	59,657	77,025
From 6 months to 1 year	56,042	35,484
From 1 year to 5 years	16,249	13,717
No maturity	874	840
	<b>881,423</b>	765,092

**(b) Concentration of Risk**

(i) As at 30 June 2011 there was no member who individually held deposits which represents 10% or more of total liabilities	-	-
(ii) The customer or industry concentration of deposits which represented in aggregate 10% or more of total liabilities are:		
Members of Victoria Police Force	125,028	111,774
(iii) The geographic concentration of deposits in the State of Victoria	96%	96%

**NOTE 14: PAYABLES**

Accrued deposit interest	3,927	3,286
Creditors and accrued expenses	2,369	1,979
	<b>6,296</b>	5,265

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

	2011 \$'000	2010 \$'000
<b>NOTE 15: BORROWINGS</b>		
Securitised Funding	<b>33,818</b>	40,034
Settlement Accounts	<b>7,674</b>	9,117
	<b>41,492</b>	49,151

**Maturity Analysis**

Borrowings will be repaid under current repayment conditions over the following periods:

Up to 3 months	<b>10,126</b>	9,764
From 3 months to 1 year	<b>5,808</b>	5,641
From 1 year to 5 years	<b>2,344</b>	10,358
Later than 5 years	<b>23,214</b>	23,388
	<b>41,492</b>	49,151

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations.

**NOTE 16: PROVISIONS**

Employee Entitlements	<b>1,711</b>	1,763
Directors' Severance Benefits	<b>553</b>	478
RSA Contributions Tax	<b>188</b>	116
	<b>2,452</b>	2,357

2011      2010  
\$'000      \$'000

**NOTE 17: STATEMENT OF CASH FLOWS**

Reconciliation of profit after income tax to net cash flow from operating activities

**(i) Reconciliation of Cash and Cash Equivalents:**

Cash on hand	662	604
Deposits at call	6,932	12,524
	<b>7,594</b>	13,128

**(ii) Reconciliation of operating profit after income tax to net cash provided by operating activities:**

Profit after income tax	9,916	10,190
Adjustments for:		
Profit on sale of non-current assets	11	81
Bad debts written off	149	169
Amounts set aside to provide for impairment	(133)	209
Depreciation and Amortisation	349	554
Net cash provided by operating activities before changes in working capital and provision	10,292	11,203
Decrease/(Increase) in deferred tax assets	20	(104)
[Increase] in interest receivable	(703)	(124)
Decrease/(Increase) in sundry debtors	14	(78)
Decrease in prepayments	36	22
Increase in interest payable	641	168
Increase/(Decrease) in accrued expenses	410	(93)
[Decrease] in provision for employee entitlements	(52)	(3)
Increase/(Decrease) in taxes payable	332	(832)
Net Decrease in clearing accounts	(75)	(210)
Net (Increase) in loans and advances	(30,504)	(64,265)
Net increase in deposits	116,297	46,199
(Increase)/Decrease in receivables due from other financial institutions	(100,467)	3,895
Net Increase/(Decrease) in Settlement Accounts	(1,443)	3,483
Net cash flows from operating activities	<b>(5,202)</b>	(739)

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

2011  
\$'000

2010  
\$'000

**NOTE 18: CONTINGENT LIABILITIES AND CREDIT COMMITMENTS**

(i) Binding commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Many of the commitments are expected to expire without being drawn upon.		
Approved but undrawn loans	<b>16,158</b>	14,588
Undrawn continuing line of credit commitments	<b>41,865</b>	39,791
Balance available for redraw under redraw facilities of term loans	<b>77,239</b>	72,454
(ii) Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	<b>917</b>	910
One year or later and no later than five years	<b>2,891</b>	3,809
(iii) Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	<b>59</b>	95

2011  
\$

2010  
\$

**NOTE 19: AUDITORS' REMUNERATION**

**Auditors of the Company – KPMG Australia**

Audit of financial report	<b>80,762</b>	77,030
Other regulatory audit services	<b>69,055</b>	68,435
Tax	<b>15,424</b>	16,248
	<b>165,241</b>	161,713

**UHY Haines Norton – Internal Auditor**

Internal audit for the Company	<b>70,779</b>	41,748
	<b>70,779</b>	41,748

**NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES**

**(a) Directors**

The names of the persons who were Directors of the Company at any time during the financial year are as follows:

L. D. Allemand, M. W. J. Buchan, C. P. McIntyre, P. J. Mugavin, J. W. Capewell, W. G. Taylor and D. R. Boell.

**(b) Executives/Managers**

P. Kempster, Chief Executive Officer  
 G. Ashworth, Executive Manager – Corporate Governance, Company Secretary  
 G. Miller, Executive Manager – Technology and Telecommunications  
 F. Pieterse, Executive Manager – Finance until 1 December 2010  
 P. Manning, Executive Manager – Finance from 2 December 2010  
 M. Dilges, Executive Manager – Marketing and Sales  
 M. Ayres, Manager – Member Services and Insurance  
 J. Verga, Manager – Contact Centre

**(c) Transactions with key management personnel**

In addition to their salaries, the Company also provides non-cash benefits to key management personnel, and contributes to post-benefit accumulation superannuation funds on their behalf.

**(d) Key management personnel compensation**

The key management personnel compensation relating to employees is included in the 'personnel costs' and 'superannuation' amounts (see Note 4e). Compensation relating to the Directors is disclosed in the same note. The key management personnel compensation is as follows:

	2011	2010
	\$	\$
Directors' Fees	<b>263,987</b>	239,938
Directors' Severance Benefits	<b>75,118</b>	74,286
Short-term employee benefits – salaries/fees/non-monetary benefits	<b>1,649,400</b>	1,373,485
Other long-term benefits	<b>41,336</b>	44,988
Post-employment benefits – superannuation contributions	<b>239,869</b>	178,197
	<b>2,269,710</b>	1,910,894

**NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)**

**(e) Loans to key management personnel**

The following loan facilities were conducted by key management personnel at normal member rates during the year:

	2011 \$	2010 \$
Balance owing as at 30 June	<b>181,793</b>	196,073

**Summary of Transactions**

New Advances	–	32,000
Net Repayments made during the year	<b>27,233</b>	71,738
Interest Received on loans to key management personnel	<b>12,953</b>	14,086

The key personnel who held the loan/continuing credit accounts with the Company during the year were: L. D. Allemand, M. W. J. Buchan, C. P. McIntyre, P. J. Mugavin, G. Miller, D. R. Boell and M. Ayres.

**(f) Severance benefits**

A formal policy for directors' severance benefits was approved at the Annual General Meeting in 2008. A director is entitled to a severance benefit upon ceasing to be a director of the company equivalent to the previous two years earnings where a director has at least nine years service and the previous three years earnings where a director has at least fifteen years service.

The severance benefit applies if a director ceases to be a director due to a change of control or merger or sale of a significant part of the business or the director voluntarily resigns from office. The severance benefit does not apply if the director fails to be re-elected or the director dies in office or where a director resigns subsequent to having been nominated as a candidate for director election and before that election takes place.

The amount provided for directors' severance benefit is estimated on an accruals basis even though a director may not have served the required term of office. The provision at 30 June 2011 is \$553,098 (2010: \$477,980) and is presented in Note 16.

**(g) Other key management personnel transactions**

There are no other transactions or contracts to which key management personnel are a related party.

## NOTE 21: FINANCIAL INSTRUMENTS

### (a) Interest rate risk

The Company's exposure to interest rate risk for the classes of financial assets and financial liabilities is set out below:

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN						NON-INTEREST BEARING		TOTAL CARRYING AMOUNT AS PER BALANCE SHEET	
			1 YEAR OR LESS		OVER 1 TO 5 YEARS		MORE THAN 5 YEARS					
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>(i) Financial assets</b>												
Cash and Cash Equivalents	6,932	12,524	-	-	-	-	-	-	662	604	7,594	13,128
Receivables	-	-	-	-	-	-	-	-	2,620	1,708	2,620	1,708
Term Deposits	-	-	112,753	92,753	-	-	-	-	-	-	112,753	92,753
Negotiable Certificates of Deposit	-	-	160,467	80,000	-	-	-	-	-	-	160,467	80,000
Loans and Advances	619,489	577,933	29,943	42,746	101,059	105,539	-	-	-	-	750,491	726,218
Equity Investments	904	904	-	-	-	-	-	-	1,515	1,515	2,419	2,419
	<b>627,325</b>	<b>591,361</b>	<b>303,163</b>	<b>215,499</b>	<b>101,059</b>	<b>105,539</b>	<b>-</b>	<b>-</b>	<b>4,797</b>	<b>3,827</b>	<b>1,036,344</b>	<b>916,226</b>
<b>(ii) Financial liabilities</b>												
Payables	-	-	-	-	-	-	-	-	6,296	5,265	6,296	5,265
Deposits	670,478	562,964	193,822	188,362	16,249	12,926	-	-	874	840	881,423	765,092
Borrowings	30,888	32,505	8,260	6,288	2,344	10,358	-	-	-	-	41,492	49,151
	<b>701,366</b>	<b>595,469</b>	<b>202,082</b>	<b>194,650</b>	<b>18,593</b>	<b>23,284</b>	<b>-</b>	<b>-</b>	<b>7,170</b>	<b>6,105</b>	<b>929,211</b>	<b>819,508</b>

### (b) Credit risk exposure

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

#### ON-BALANCE SHEET FINANCIAL INSTRUMENTS

The credit risk on financial assets, excluding investments of the Company, which have been recognised on balance sheet, is the carrying amount, net of any provision for impairment. Receivables from other financial institutions are receivables with high-credit quality financial institutions and therefore credit risk is minimal.

The Company is not materially exposed to any individual customer.

### (c) Net fair value of financial assets and liabilities

#### Valuation Approach

Net fair value of financial assets and liabilities are determined by the Company on the following basis:

The carrying value of loans and advances is net of the provision for impairment. As the majority of the loans and advances are on variable rate terms, in the directors' opinion, fair value is not materially different from the current carrying value. For variable rate financial assets and liabilities, including loans and advances, deposits and securitised funding, the carrying value approximates the fair value. For fixed rate financial assets and liabilities, adjustment has been made based on the differences between historical rates and current fixed rates.

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

**NOTE 21: FINANCIAL INSTRUMENTS (continued)**

**(c) Net fair value of financial assets and liabilities (continued)**

**Valuation Approach**

The carrying amounts of cash and liquid assets, receivables, term deposits, negotiable certificates of deposit, equity investments and payables approximate fair value.

On Balance Sheet Financial Instruments	Total Carrying Amount as per Balance Sheet		Aggregate Net Fair Value	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
<b>(i) Financial assets</b>				
Cash and liquid assets	<b>7,594</b>	13,128	<b>7,594</b>	13,128
Receivables	<b>2,620</b>	1,708	<b>2,620</b>	1,708
Term deposits	<b>112,753</b>	92,753	<b>112,753</b>	92,753
Negotiable certificates of deposit	<b>160,467</b>	80,000	<b>160,467</b>	80,000
Loans and advances	<b>750,491</b>	726,218	<b>750,628</b>	728,005
Equity Investments	<b>2,419</b>	2,419	<b>2,419</b>	2,419
Total financial assets	<b>1,036,344</b>	916,226	<b>1,036,481</b>	918,013
<b>(ii) Financial liabilities</b>				
Payables	<b>6,296</b>	5,265	<b>6,296</b>	5,265
Deposits	<b>881,423</b>	765,092	<b>882,152</b>	765,006
Borrowings	<b>41,492</b>	49,151	<b>41,542</b>	49,305
Total financial liabilities	<b>929,211</b>	819,508	<b>929,990</b>	819,576

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations.

**NOTE 22: FINANCIAL RISK MANAGEMENT**

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The Audit and Risk Management Committee reports regularly to the Board of Directors on its activities.

## **NOTE 22: FINANCIAL RISK MANAGEMENT (continued)**

Risk management policies are established to identify and analyse the risk faced by the Company, to set appropriate risk limits and a control framework, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit and Risk Management Committee is assisted in its oversight role by the Company's internal auditors. The internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

The Company has undertaken the following strategies to minimise the risks arising from financial instruments.

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations as they become due. Credit risk arises principally from loans and advances to members, debt and investment securities which are key aspects of the Company's business.

The main policies which Police Credit have to mitigate and manage credit risk are:

- Credit Risk Lending Policy
- Large Exposures Policy

The Credit Risk Lending Policy sets out the framework for the Company's lending practices including delegated credit approval limits .

The Large Exposures Policy sets out the Company's practices for dealing with and mitigating against large exposures in lending to members and investing with counterparties.

#### **(i) Credit risk – loans**

The Company's exposure to credit risk is influenced mainly by the changes in credit quality and the recoverability of loans and amounts due from members and counterparties.

Adverse changes in credit quality and the recoverability of loans and the amounts due from members or a downturn in economic conditions may impact the value and recoverability of the Company's assets.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 9(b) describes the nature of the security held against the loans as at the balance date.

The Company has a concentration in retail lending for members who comprise employees and family in the police, nursing and emergency services industry. This concentration is considered acceptable on the basis that the Company was formed to service these members, the industry is an essential and stable industry and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to facilitate the repayment of the loans.

→ **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the Year Ended 30 June 2011

**NOTE 22: FINANCIAL RISK MANAGEMENT (continued)**

(ii) **Credit risk – investments**

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investor and the limits to concentration in one entity.

The Company limits its exposure to credit risk by generally investing with counterparties that have an external rating of at least investment grade. Unrated counterparties comprise Indue Limited and other Australian ADIs.

In addition, limits are imposed on the maximum exposure with any one counterparty as a percentage of capital.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company is required to maintain at least 9% of total liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Board policy is to apply a minimum level of 11% of liabilities as liquid assets to maintain adequate funds for meeting member withdrawal requests. As at 30 June 2011, the Company had 19.1% of total liabilities as liquid assets. Various trigger levels have been set to ensure appropriate measures are undertaken to maintain liquidity above the minimum level.

In addition excessive concentration of liabilities is minimised by setting limits on the maximum amount of single and multiple liabilities.

The Company also participates in a loan securitisation scheme that enables qualifying mortgage loans to be sold into the securitisation vehicle.

The Company has set out below the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

<b>30 June 2011</b>	<b>CARRYING</b>	<b>CONTRACTUAL</b>	<b>LESS THAN</b>	<b>1 TO 3</b>	<b>3 MONTHS</b>	<b>1 TO 5</b>	<b>MORE THAN</b>
<b>Financial Liabilities (\$'000)</b>	<b>AMOUNT</b>	<b>CASH FLOW</b>	<b>1 MONTH</b>	<b>MONTHS</b>	<b>TO 1 YEAR</b>	<b>YEARS</b>	<b>5 YEARS</b>
Deposits*	881,423	881,423	666,266	83,209	115,699	16,249	–
Trade and other Payables	6,296	6,296	6,296	–	–	–	–
Borrowings	41,492	41,492	7,674	2,452	5,808	2,344	23,214
<b>Total</b>	<b>929,211</b>	<b>929,211</b>	<b>680,236</b>	<b>85,661</b>	<b>121,507</b>	<b>18,593</b>	<b>23,214</b>
<b>30 June 2010</b>	<b>CARRYING</b>	<b>CONTRACTUAL</b>	<b>LESS THAN</b>	<b>1 TO 3</b>	<b>3 MONTHS</b>	<b>1 TO 5</b>	<b>MORE THAN</b>
<b>Financial Liabilities (\$'000)</b>	<b>AMOUNT</b>	<b>CASH FLOW</b>	<b>1 MONTH</b>	<b>MONTHS</b>	<b>TO 1 YEAR</b>	<b>YEARS</b>	<b>5 YEARS</b>
Deposits	765,092	765,092	556,879	81,987	112,509	13,717	–
Trade and other Payables	5,265	5,265	5,265	–	–	–	–
Borrowings	49,151	49,151	9,117	647	5,641	10,358	23,388
<b>Total</b>	<b>819,508</b>	<b>819,508</b>	<b>571,261</b>	<b>82,634</b>	<b>118,150</b>	<b>24,075</b>	<b>23,388</b>

\*Deposits less than 1 month include deposits with no maturity.

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations.

**NOTE 22: FINANCIAL RISK MANAGEMENT (continued)**

**Market Risk**

Market risk is the risk that changes in market prices, such as interest rate risk and other market prices will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company is not exposed to currency risk and other price risk. The Company does not trade in the financial instruments it holds on its books. The most significant form of market risk to which the Company is exposed is interest rate risk arising from changes in market interest rates.

**(i) Interest Rate Risk**

The policy of the Company is to manage the variability in the net interest margin as a result of adverse movements in interest rates. This is achieved by keeping the mismatch between rate sensitive assets and liabilities to an acceptable level.

The Company manages interest rate risk by setting prudent limits for the impact of movements in market rates on net interest income, net present value and Value at Risk (VaR).

**(ii) Interest Rate Sensitivity**

At 30 June 2011, a 1% increase or decrease in interest rates compared to actual rates would improve/ (reduce) annual net interest income by the following amounts.

	2011 \$'000	2010 \$'000
1% increase	<b>1,884</b>	1,882
1% decrease	<b>(1,893)</b>	(1,892)

At 30 June 2011, a 1% increase or decrease in interest rates compared to actual rates would increase/ (decrease) equity by the following amounts.

	2011 \$'000	2010 \$'000
1% increase	<b>(386)</b>	(798)
1% decrease	<b>414</b>	859

## **NOTE 22: FINANCIAL RISK MANAGEMENT (continued)**

### **Capital Management**

The Board is responsible for ensuring Police Credit has in place a process for assessing its overall capital adequacy relative to its risk profile and a strategy for maintaining capital levels.

Police Credit has established a process for identifying and classifying all material inherent risks and controls to mitigate such risks. A minimum level of capital is determined taking account of the net residual risks.

The Company has established a management information system for measuring and reporting capital to the Board.

The current strategy is for the Company's core capital to be derived entirely from retained earnings. Maintenance of adequate capital over time therefore depends on balancing profit after tax with growth in risk-weighted assets. Note that the 12% minimum capital level determined by the Board exceeds the 11% minimum level required pursuant to the Australian Prudential Standards.

The Company's regulator, APRA sets and monitors capital requirements for the Company as a whole. In implementing capital requirements, APRA requires the Company to maintain a prescribed ratio of total capital to total risk weighted assets.

Regulatory capital is analysed into two tiers:

- Tier 1 capital includes general reserves, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Company had a net Tier 1 capital ratio of 20.8% of risk weighted assets as at 30 June 2011.
- Tier 2 capital includes qualifying collective impairment allowance and asset revaluation reserves after applying other regulatory adjustments. The Company had a net Tier 2 capital ratio of 0% of risk weighted assets as at 30 June 2011.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures plus an allowance for operational risk as prescribed by APRA.

The Company has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Company's management of capital during the year.

## **NOTE 23: EVENTS SUBSEQUENT TO BALANCE DATE**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

In the opinion of the Directors of Police Association Credit Co-operative Limited (the Company):

- (a) the financial statements and notes set out on pages 15 to 48 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2 (a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 20th day of September 2011

Signed in accordance with a resolution of the Directors.



**L. D. ALLEMAND**  
*Director*



**J. W. CAPEWELL**  
*Director*

## → INDEPENDENT AUDITOR'S REPORT

to the Members of Police Association Credit Co-operative Limited

### REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Police Association Credit Co-Operative Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 23 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENCE**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**AUDITOR'S OPINION**

In our opinion:

- (a) the financial report of Police Association Credit Co-operative Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG



**Michelle Hinchliffe**

*Partner*

Dated at Melbourne this 20th day of September 2011.

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