Annual Report 2012

Police Credit
Securing your future

Contents

POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

Board of Directors and Management

CHAIRMAN

Lionel D. Allemand MAICD

DEPUTY CHAIRMAN

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

DIRECTORS

Morris W. J. Buchan MAICD, retired 18 November 2011
Christine P. McIntyre MAICD, APM, retired 18 November 2011
P. John Mugavin FAICD, Grad. Dip. Public Admin.
David R. Boell AAICD, B.Bus.
Wayne G. Taylor GAICD, M Ed. (Monash), Grad. Dip. Public Admin., Dip. Training (VU), Dip. Company Directorship
Marianne Luttick MAICD, commenced 18 November 2011
Adrian J. White MAICD, commenced 18 November 2011

CHIEF EXECUTIVE OFFICER

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

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, ACIS ACSA

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's Report

TO THE MEMBERS OF POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

Chairman
Lionel D. Allemand

Deputy Chairman
John W. Capewell

Police Credit goes from strength to strength

In a year of volatile market conditions and increased competition from the big four banks, I am very pleased to report that we made good progress against our strategic plan. This was due to our competitive rates, range of product choices and the support of our members, who are more and more looking to us for all their banking requirements.

The profit after tax of $11.4m was an excellent result given the challenging environment. It was also pleasing to see our membership continued to grow to over 93,000 members. During the year both our deposits base and assets continued to grow, which has given us a very strong balance sheet position for the start of 2012/2013.

Over the year, our loan book grew substantially. The most popular loan products were our competitive 2 year Honeymoon Discount Rate Loan and our Premium Home Package. These offer members excellent value – for example, our Premium Home Package offers up to 0.40% off our standard variable rate loan. These two products are now so popular that they now make up over 50% of all new lending.

In February, we launched our new WealthBuilders products. These investment loan packages provide member investors with tailored loan solutions for people wishing to invest in property. We understand that, for some people, investing in property can be confusing and complex. To help our members understand some of the issues and considerations involved, during the year we held free Investment Seminars. These proved to be so popular, that we will be scheduling more in the year ahead.

Technology is moving ahead rapidly and hence it is no surprise that mobile and internet banking continued to be extremely popular with our members. We intend to keep investing time and effort in this area to ensure we stay at the forefront of new technology. To this end, we will be upgrading our internet banking and website over the next financial year and working on new products and service developments to make it easier for you to bank with us.

We are very proud to announce that, for a second year running, we were voted one of the Top Five Credit Unions in Australia by Money magazine. Whilst we do not actively seek awards, it is pleasing to be recognised for our quality products and services. A true reflection of the hard work completed by our management and staff.

Director
P. John Mugavin

Director
David R. Boell

Director
Wayne G. Taylor

Director
Marianne Luttick

Director
Adrian J. White

It also gives me great pleasure to confirm that our annual members' survey once again produced outstanding results. Member feedback showed that we are managing to maintain very high levels of customer satisfaction – in excess of that provided by the big banks. Customer service has always been a major priority for us and as a result it was fantastic to get so much positive feedback.

Our focus for the future is to continue to provide our members with excellent and competitive banking products and services while maintaining our reputation for friendly and personalised service. As always, everything we do, now and in the future, will continue to be for the benefit of our members.

In relation to social responsibility, our new partnership with Limbs 4 Life has proved to be both fulfilling and mutually beneficial. Our support has enabled the charity to further develop their peer support program, hire an additional resource to carry out their business objectives and develop a stronger presence through increased marketing effort. Additionally, our association with Limbs 4 Life has contributed to greater Police Credit awareness in the health industry, I encourage you all to support this very worthwhile organisation and visit their website www.limbs4life.com to learn more about the inspiring work they carry out in the community.

On behalf of the board, I would like to sincerely thank the management and staff of Police Credit for their hard work and dedication to our organisation and thank you for your continued support of our organisation.

Finally may I extend my thanks to the board for their hard work and input throughout the past year.

LIONEL D. ALLEMAND
Chairman

Chief Executive Officer's Report

TO THE MEMBERS OF POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

Chief Executive Officer
Peter Kempster

Police Credit – Continuing to Serve You and Your Community.

Police Credit continues to focus on its members. Police Credit is built upon the simple model of members helping members. We accept deposits from members, and make loans to other members. In addition, we provide payment and other services to all members. Unlike some other financial institutions, we do not raise money from overseas investors or invest in derivatives or complex securities. We maintain prudent cash and liquid reserves and do not maximise or distribute profit to shareholders – instead we earn reasonable returns to support future growth and services. This model of member, or customer, owned banking continues to be supported by members and has performed well in the past year.

During 2011-12, member support has resulted in further Police Credit growth. Deposits rose almost 10% and we were able to increase our lending to members by around 15%. Assets rose to above $1.1 billion and we made a profit of around 1% of assets. These results reflect the trust and support you, our members, place in us. Importantly, these results demonstrate that Police Credit has the strength and capacity to meet the personal banking needs of you and your family.

Our growth allows us to innovate to benefit members. Our world moves so quickly that innovations we implemented in 2011-12 are now taken for granted. One example was the development of our social networking presence, including on Facebook and Twitter. Another initiative was to launch functionality to enable prospective members to join online, eliminating a lot of the paperwork previously required. We also developed a WealthBuilders suite of products specifically designed to meet the needs of those investing in property and/or other types of assets.

Police Credit will continue to invest for members in 2012-13. We are currently working with our technology partners to add a 'pay anyone' capability to your mobile phone banking. Instead of needing a payee's bank account details, the payer will only need to enter the payee's mobile phone number or email address. Our plans also include launching a new improved version of internet banking, as well as a new and modernised website for member use.

Our support of the community is expanding. For many years we have provided support to a range of organisations associated with our traditional Police membership. Less well known is our support for a variety of hospital and health related organisations in our community. In 2011-12, we expanded this support by partnering with Limbs 4 Life, an inspiring charity that provides assistance and education to amputees. Our web site provides information about, and links to our community partners and we encourage members to further support their very worthwhile endeavours. We have also launched an educational web site (www.youandmoney.com.au) which is designed to help all Australians manage money, no matter what their age, financial situation, lifestyle or income. Please check it out if you've not already used it.

Our staff appreciate your support. At Police Credit staff care about your banking experience and our customer service. Our most recent member survey showed that 98% of surveyed members were either Very Satisfied (87%) or Satisfied (11%) with Police Credit. We were also rated very highly by Money magazine and on the Mozo website. We are encouraged by these results, and thank both staff and members for making them possible.

Please continue to recommend us to your family, friends, and work colleagues. Police Credit is now a strong and vibrant alternative to the major banks for personal banking and insurance. The more you use Police Credit, the more we will reinvest in competitive products, service and future lending growth.

Thank you for your continued support of Police Credit.

Peter Kempster

PETER KEMPSTER
Chief Executive Officer

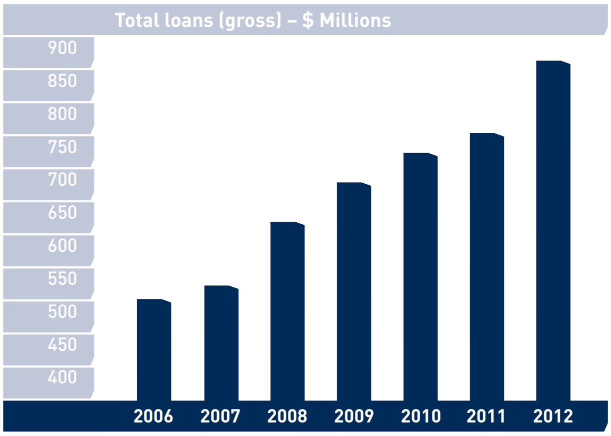
Executives
Back Row: Paul Manning, Peter Kempster and Graham Miller
Front Row: Graham Ashworth and Melanie Dilges

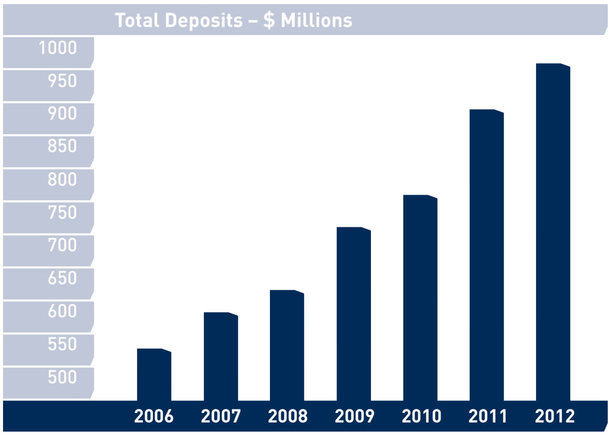
2011-2012 Results

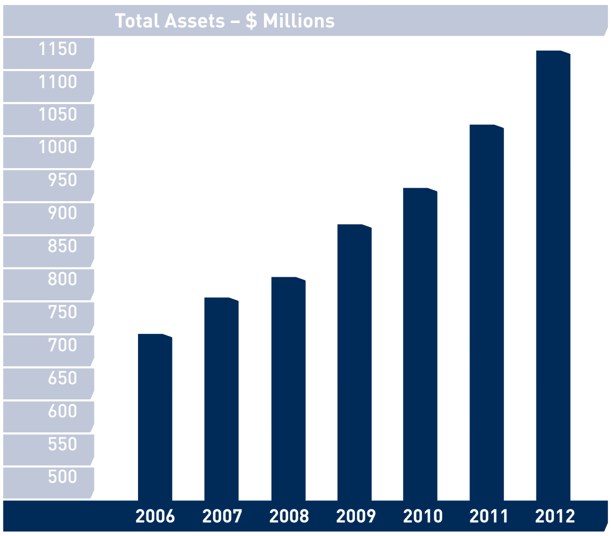
POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

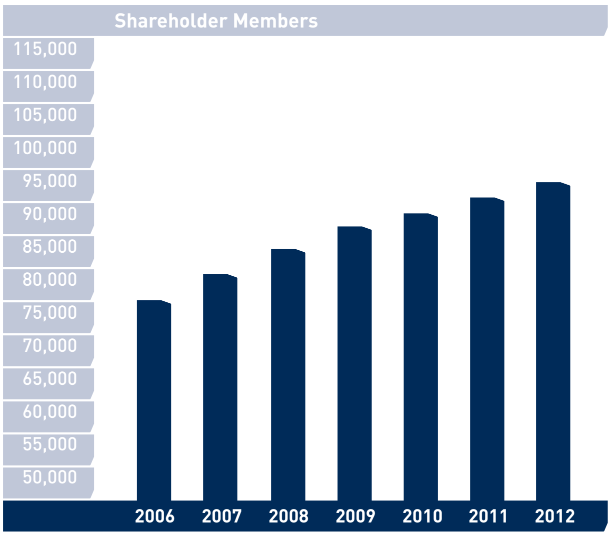
	HIGHLIGHTS 2011-2012	HIGHLIGHTS 2010-2011	GROWTH PERCENT
Shareholder Members	**93,580**	91,107	**2.7%**
Deposits $'000	**967,659**	881,423	**9.8%**
Assets $'000	**1,126,132**	1,038,098	**8.5%**
Members' Funds $'000	**116,811**	105,397	**10.8%**
Profit After Tax $'000	**11,414**	9,916	**15.1%**
Loans Outstanding (Gross) $'000	**865,390**	751,013	**15.2%**

The value of loans funded since inception (2 December 1974), totals $3,982,169,045.









CORPORATE GOVERNANCE STRUCTURE

The Board continues to ensure it applies best practice standards of corporate governance. In the last financial year, corporate Australia was reminded of the duties and responsibilities of directors following decisions in the Centro and James Hardie cases. Through the Corporate Governance Committee, which is accountable for the maintenance and delivery of governance standards, the Board strives to ensure Police Credit's reputation and business ethics are without question. The Board is confident that the current disciplined corporate governance structure will continue to ensure appropriate development, prioritisation and delivery of business strategies, as well as practising consistent, ethical 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 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 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 four permanent committees, Audit and Risk Management Committee, Corporate Governance Committee, Remuneration Committee and Nominations Committee. Each Committee has its own principal responsibilities.

In accordance with good governance principles, during the year W. G Taylor replaced P. J. Mugavin as chair of the Audit and Risk Management Committee. J. W. Capewell was appointed as chair of the Corporate Governance Committee, replacing C. P. McIntyre who retired after more than eight years as a Corporate Governance Committee member.

AUDIT AND RISK MANAGEMENT COMMITTEE

Chairman: P. J. Mugavin (to 21 February 2012)
W. G. Taylor (from 21 February 2012)

Members: D. R. Boell; A.J. White (from 22 November 2011)

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;

→ 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).

→ monitoring of risk appetite, liquidity, regulatory requirements and credit.

CORPORATE GOVERNANCE COMMITTEE

Chairman: C. P. McIntyre retired 18 November 2011
J. W. Capewell from 22 November 2011

Members: L. D. Allemand; J. W. Capewell; M. Luttick (from 22 November 2011)

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; W.G. Taylor from 21 February 2012

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: L. D. Allemand

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 Lionel Allemand, who is supported by two advisors, independent of Police Credit. The independent advisors for 2011/12 were Peter Crocker, the recently retired chairman of Bank Mecu, 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

TO THE MEMBERS OF POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

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

John W. Capewell GAICD, Grad. Dip. Applied Finance and Investment. Dip. Company Directorship, Grad. Cert. Commercial Law, A. Fin.
Deputy Chairman. Age 49. Experience – Director since 1999. Chairman Remuneration Committee. Chairman Corporate Governance Committee since 22 November 2011.

P. John Mugavin FAICD, Grad Dip Public Admin
Director. Age 58. Experience – Director since 1998. Member Audit and Risk Management Committee, Chairman of Committee until 21 February 2012. Member Remuneration Committee.

Morris W. J. Buchan MAICD
Director. Age 79. Experience – Director since 1974. Retired 18 November 2011.

Christine P. McIntyre MAICD, APM
Director. Age 61. Experience – Director since 1996. Chairman Corporate Governance Committee until retirement on 18 November 2011.

Wayne G. Taylor GAICD, M Ed. (Monash), Grad. Dip. Public Admin., Dip. Training (VU), Dip. Company Directorship
Director. Age 56. Experience – Director since 2009. Chairman Audit and Risk Management Committee from 21 February 2012. Member Remuneration Committee.

David R. Boell AAICD, B.Bus
Director. Age 43. Experience – Director since 2009. Member Audit and Risk Management Committee.

Marianne Luttick MAICD
Director. Age 48. Experience – Director since 18 November 2011. Member Corporate Governance Committee.

Adrian J. White MAICD
Director. Age 52. Experience – Director since 18 November 2011. Member Audit and Risk Management Committee.

Company Secretary

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

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
Ms. M. Luttick	10
Mr. A. J. White	10

Directors' Meetings

During the financial year, 12 meetings of Directors, 5 Corporate Governance Committee, 4 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

	BOARD MEETINGS		AUDIT AND RISK MANAGEMENT COMMITTEE MEETINGS		CORPORATE GOVERNANCE COMMITTEE MEETINGS		REMUNERATION COMMITTEE MEETINGS		NOMINATIONS COMMITTEE MEETINGS	
DIRECTOR	A	B	A	B	A	B	A	B	A	B
Mr. L. D. Allemand	12	12	–	–	5	5	2	2	4	4
Mr. J. W. Capewell	12	11	–	–	5	5	2	2	–	–
Mr. P. J. Mugavin	12	12	4	4	–	–	2	2	–	–
Mr. M. W. J. Buchan	4	4	–	–	–	–	–	–	–	–
Ms. C. P. McIntyre	4	3	–	–	3	2	–	–	–	–
Mr. W. G. Taylor	12	12	4	4	–	–	–	–	–	–
Mr. D. R. Boell	12	11	4	4	–	–	–	–	–	–
Ms. M. Luttick	8	8	–	–	2	2	–	–	–	–
Mr. A. J. White	8	8	2	2	–	1*	–	–	–	–

*as an observer.

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 was $11,413,642 (2011: $9,916,497).

4. REVIEW OF OPERATIONS

Growth

Over the past 12 months assets increased by 8.5%. Deposits increased by 9.8% reflecting continued member support. Loan demand was strong compared with the prior year, with gross loans increasing by 15.2%.

During the year 5,485 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 $11.4 million, an increase of 15.1% over the previous year. Net Interest Income for the year was $32.0 million, an increase of 7.4% over the previous year. Operating expenses for the year were $24.2 million, an increase of 6.4% 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 increased during the year from 20.8% in 2011 to 21.6% in 2012 of risk-weighted assets, significantly above the 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 a range of investment loans including PC Property Investor, PC Portfolio, PC Diversified and PC Equity Lifestyle packages. Additional changes include enhancements to Account Switching.

5. DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year (2011: Nil).

6. SHARE ISSUES

The only shares issued by the Company during the year were 54,850 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 30,120 $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) Operations of the Company;

(ii) Results of those operations; or

(iii) 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

In the coming year, Police Credit will continue its investment into the latest technology with significant upgrades planned for both the Internet and "pay anyone" technology. This should ensure that we will continue to improve our overall customer experience.

In addition, Police Credit intend to launch new banking products and services during the year. This is likely to include launching "paywave" cards and additional functionality to allow members to easily switch all their banking to Police Credit.

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 2012.

Signed this 18th day of September 2012, in accordance with a resolution of the Board of Directors.

L. D. ALLEMAND
Director

J. W. CAPEWELL
Director

Lead Auditor's Independence Declaration

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 2012 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

KPMG

Chris Wooden
Partner

Melbourne

18 September 2012

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Interest income	4a	**71,788**	66,993
Interest expense	4b	**(39,784)**	(37,182)
Net interest income		**32,004**	29,811
Other income	4c	**6,824**	6,291
Total income		**38,828**	36,102
Impairment losses on loans and advances (net of recoveries)	4d	**(377)**	36
Other expenses	4e	**(24,231)**	(22,776)
Profit before income tax expense		**14,220**	13,362
Income tax expense	5	**(2,806)**	(3,446)
Profit for the period		**11,414**	9,916
Other comprehensive income		**–**	–
Total comprehensive income		**11,414**	9,916
Total comprehensive income available to members		**11,414**	9,916

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

Balance Sheet

AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash and Cash Equivalents	6	**19,939**	7,594
Receivables Due from Other Financial Institutions	7	**234,598**	273,220
Accrued Receivables and Other Assets	8	**2,520**	2,620
Loans and Advances (Net)	9	**864,576**	750,491
Other Investments	10	**2,419**	2,419
Property, Plant and Equipment	11	**550**	430
Intangible Assets	12	**278**	125
Deferred Tax Asset	5	**1,252**	1,199
TOTAL ASSETS		**1,126,132**	1,038,098
Liabilities			
Deposits	13	**967,659**	881,423
Payables	14	**8,323**	6,296
Borrowings	15	**30,414**	41,492
Current Tax Liability		**470**	1,038
Provisions	16	**2,455**	2,452
TOTAL LIABILITIES		**1,009,321**	932,701
NET ASSETS		**116,811**	105,397
Members' Funds			
Reserves		**15,385**	15,324
Redeemed Capital Reserve		**278**	248
Retained Earnings		**101,148**	89,825
TOTAL MEMBERS' FUNDS		**116,811**	105,397

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

	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 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
Balance as at 30 June 2011	15,000	324	248	89,825	105,397
Balance as at 1 July 2011	15,000	324	248	89,825	105,397
Increase in reserve during the year	–	61	–	(61)	–
Transfer from retained earnings	–	–	30	(30)	–
Profit or loss	–	–	–	11,414	11,414
Balance as at 30 June 2012	**15,000**	**385**	**278**	**101,148**	**116,811**

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 2012

	Note	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**71,712**	66,290
Interest paid		**(38,267)**	(36,541)
Other income received		**6,763**	6,346
Cash payments to suppliers and employees		**(23,394)**	(22,084)
Net (increase) in loans and advances		**(125,229)**	(30,504)
Net increase in deposits		**86,208**	116,297
Net decrease/(increase) in receivables due from other financial institutions		**38,622**	(100,467)
Income tax paid		**(3,451)**	(3,096)
Net Increase/(decrease) in settlement accounts		**(226)**	(1,443)
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**12,738**	(5,202)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**66**	11
Payments for property, plant and equipment		**(239)**	(225)
Capitalisation of other assets		**(248)**	(152)
Net Cash outflow used in Investing Activities		**(421)**	(366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in member shares		**28**	34
Net Cash inflow provided by Financing Activities		**28**	34
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**12,345**	(5,534)
Cash and cash equivalents at Beginning of Financial Year		**7,594**	13,128
Cash and cash equivalents at End of Financial Year	17(i)	**19,939**	7,594

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 18 September 2012.

(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, with maturities of less than three months.

(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 interest method.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Loans and advances (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Derecognition of financial assets and liabilities (continued)

(i) Financial assets (continued)

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 statement of comprehensive income over the period of the borrowings using the effective interest method.

(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 cashflows 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment (continued)

(i) Calculation of recoverable amount (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(i) 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.

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).

(ii) 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.

(iii) 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

(i) Interest expense

Interest is calculated on the daily balance and posted to the accounts systematically, 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.

(ii) All other operating expenses

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(q) Directors' severance benefits

A director appointed prior to 18 November 2011 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. A director appointed post 18 November 2011 who is entitled to a severance benefit will receive a sum not exceeding twelve months remuneration in accordance with s200F of the *Corporations Act (Cth) 2001*.

Note 20(f) contains further details on when a director is not entitled to receive a severance benefit.

The Company starts provisioning for a director's 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 fifteen 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 2012, 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 2016 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Leases

(i) Leased Assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognised in the Company's statement of financial position.

(ii) Lease Payments

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

→ The fulfilment of the arrangement is dependant on the use of a specific asset or assets; and

→ The arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000
NOTE 4: PROFIT		
Profit before income tax has been determined after:		
(a) Interest Income		
Loans and Advances (other than commercial loans)	**54,351**	51,324
Commercial Loans	**23**	25
Amounts from other Financial Institutions	**15,352**	12,934
Securitised Loans	**2,062**	2,710
Total Interest Income	**71,788**	66,993
(b) Interest Expense		
Member Deposits	**37,866**	34,541
Securitised Loans	**1,918**	2,641
Total Interest Expense	**39,784**	37,182
(c) Other Income		
Fees and Commissions	**4,229**	3,911
Insurance Commissions	**2,121**	1,929
Other Income	**378**	381
Income from Property	**61**	59
Profit on Sale of Property, Plant and Equipment	**35**	11
Total Other Income	**6,824**	6,291
(d) Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**115**	149
Increase/(decrease) in Provision for Impairment	**292**	(133)
Bad Debts Recovered	**(30)**	(52)
	377	(36)

NOTE 4: PROFIT (continued)

(e) Other expenses

	2012 $'000	2011 $'000
Depreciation and amortisation	**432**	349
Amounts set aside to provide for employee entitlements	**228**	25
Administration costs	**2,907**	2,613
Personnel costs	**9,593**	9,843
Superannuation	**636**	587
Supervision levy	**45**	39
Audit fees	**240**	236
Visa card costs	**5,051**	4,568
Marketing costs	**620**	617
Information technology costs	**2,330**	1,884
Operating lease rentals	**779**	745
Occupancy costs	**450**	519
Directors' fees	**307**	264
Directors' severance benefits	**71**	75
Insurance – general	**111**	125
Other expenses	**431**	287
	24,231	22,776

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000
NOTE 5: INCOME TAX		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**3,190**	3,409
Under/(Over) Provided in Prior Year	**(331)**	17
	2,859	3,426
Deferred tax expense		
Origination and Reversal of Temporary Differences	**(53)**	20
Total Income Tax Expense in Income Statement	**2,806**	3,446
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**14,220**	13,362
Income tax using the domestic corporation tax rate of 30% (2011: 30%)	**4,266**	4,009
Increase in income tax expense due to:		
– Non-deductible expenses	**232**	36
Decrease in income tax expense due to:		
– Non-assessable income	**(290)**	(388)
Difference in tax rate on RSA income	**(1,071)**	(228)
	3,137	3,429
Under/(Over) provided in prior year	**(331)**	17
Income tax expense on pre-tax profit	**2,806**	3,446

NOTE 5: INCOME TAX (continued)

Recognised deferred tax assets and liabilities

	Assets 2012 $'000	Assets 2011 $'000	Liabilities 2012 $'000	Liabilities 2011 $'000	Net 2012 $'000	Net 2011 $'000
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(244)**	(157)	**–**	–	**(244)**	(157)
Provision for Directors' Severance Benefits	**(129)**	(166)	**–**	–	**(129)**	(166)
Property, Plant and Equipment	**(273)**	(319)	**–**	–	**(273)**	(319)
Payables	**(48)**	(44)	**–**	–	**(48)**	(44)
Employee Entitlements	**(558)**	(513)	**–**	–	**(558)**	(513)
Net tax (assets)/liabilities	**(1,252)**	(1,199)	**–**	–	**(1,252)**	(1,199)

	Balance 1 July 2011 $'000	Recognised in Income $'000	Balance 30 June 2012 $'000
Movement in temporary differences during the year			
Provision for Impairment	(157)	(87)	**(244)**
Provision for Directors' Severance Benefits	(166)	37	**(129)**
Property, Plant and Equipment	(319)	46	**(273)**
Payables	(44)	(4)	**(48)**
Employee Benefits	(513)	(45)	**(558)**
	(1,199)	(53)	**(1,252)**

NOTE 6: CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Cash on Hand	**684**	662
Deposits at Call	**19,255**	6,932
	19,939	7,594

	2012 $'000	2011 $'000
NOTE 7: RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS		
Negotiable Certificates of Deposit	**110,142**	160,467
Term Deposits	**124,456**	112,753
	234,598	273,220
(a) Maturity Analysis		
Up to 3 months	**193,756**	169,220
From 3 months to 2 years	**40,842**	104,000
	234,598	273,220
(b) Market Value		
Negotiable certificates of Deposit/Term Deposits	**234,789**	273,220

In 2012, NCD's and Bank Term Deposits have an average maturity of 81 days (88 days 2011) with effective interest rates of 3.55% to 5.85% (4.87% to 6.35% 2011) p.a.

	2012 $'000	2011 $'000
NOTE 8: ACCRUED RECEIVABLES AND OTHER ASSETS		
Interest receivable	**1,868**	1,792
Other	**652**	828
	2,520	2,620
NOTE 9: LOANS AND ADVANCES		
Continuing credit facilities	**18,470**	17,003
Other loans and advances	**823,671**	700,010
Directors and director-related parties	**283**	182
Securitised loans	**22,966**	33,818
	865,390	751,013
Provision for impairment	**(814)**	(522)
Net loans and advances	**864,576**	750,491

NOTE 9: LOANS AND ADVANCES (CONTINUED)

	2012 $'000 Gross Loans	2012 $'000 Provisions	2011 $'000 Gross Loans	2011 $'000 Provisions
(a) Maturity analysis				
Loans will be repaid under current repayment conditions over the following periods:				
Up to 3 months	**27,240**	**(3)**	27,420	(8)
From 3 months to 1 year	**27,228**	**(12)**	25,307	(10)
From 1 year to 5 years	**119,611**	**(44)**	104,407	(36)
Later than 5 years	**691,311**	**(755)**	593,879	(468)
	865,390	**(814)**	751,013	(522)
(b) Loans by security				
Secured by mortgage	**806,766**	**(450)**	689,548	(150)
Secured other	**32,628**	**(85)**	35,907	(79)
Unsecured	**25,996**	**(279)**	25,558	(293)
	865,390	**(814)**	751,013	(522)
(c) Loans by purpose				
Residential	**806,505**	**(450)**	689,269	(150)
Personal	**58,624**	**(364)**	61,465	(372)
Commercial	**261**	**–**	279	–
	865,390	**(814)**	751,013	(522)

	2012 $'000	2011 $'000
(d) Concentration of risk		
(i) As at 30 June 2012 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	**311,694**	267,820
(iii) The geographic concentration of loans in the State of Victoria	**97%**	97%

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000
NOTE 9: LOANS AND ADVANCES (continued)		
(e) Provision for Impairment of Loans and Advances		
Balance at beginning of the year	**522**	655
Transfer from/(to) profit and loss account	**407**	16
Bad debts written off	**(115)**	(149)
Balance at the end of the year	**814**	522
The policy covering impaired loans and advances is set out in Note 3 (h).		
Non-accrual loans:		
Balances with provisions for impairment	**525**	575
Provision for impairment	**(814)**	(522)
Net non-accrual loans	**(289)**	53
Loan balances – 90 days past due	**265**	253
(a) Interest income on non-accrual loans	**4**	4
(b) Interest forgone on non-accrual loans	**40**	39
Further information regarding the credit quality of loans and advances to members:		
(f) Loans and Advances to Members		
Exposure to Credit Risk – At 30 June		
Neither past due nor impaired	**810,099**	703,473
Past due but not specifically impaired	**54,766**	46,965
Collectively Impaired		
Carrying amount	**525**	575
Allowance for impairment	**(814)**	(522)
	(289)	53
Total	**864,576**	750,491

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

	2012 $'000	2011 $'000

NOTE 10: OTHER INVESTMENTS

	2012 $'000	2011 $'000
Other Financial Assets – Shares in Indue Ltd	**1,515**	1,515
Subordinated deferred deposit – Indue Ltd	**904**	904
	2,419	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

None.

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	2012 $'000	2011 $'000
Leasehold improvements at cost	**2,198**	2,177
Less accumulated depreciation	**(2,185)**	(2,141)
	13	36
Plant and Office Equipment at cost	**5,090**	4,888
Less accumulated depreciation	**(4,553)**	(4,494)
	537	394
Total	**550**	430

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold Improvements $'000	Plant and Office Equipment $'000	Total $'000
2011			
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)
Carrying amount at 30 June 2011	36	394	430
2012			
Movement in the carrying amounts for Leasehold Improvements and Office Equipment			
Balance at 1 July 2011	36	394	430
Additions	21	409	430
Disposals*	–	(31)	(31)
Depreciation expense	(44)	(235)	(279)
Carrying amount at 30 June 2012	**13**	**537**	**550**

*A gain of $35K has been included in Note 4c relating to the profit on sale of assets.

	2012 $'000	2011 $'000
NOTE 12: INTANGIBLE ASSETS – SOFTWARE		
At cost	**2,234**	1,928
Accumulated amortisation	**(1,956)**	(1,803)
Net carrying amount	**278**	125
Carrying amount at the beginning of the year	**125**	261
Additions	**306**	35
Amortisation expense	**(153)**	(171)
Carrying amount at the end of the year	**278**	125

	2012 $'000	2011 $'000
NOTE 13: DEPOSITS		
Call deposits	**673,331**	670,478
Term deposits	**293,426**	210,071
Redeemable preference shares	**902**	874
	967,659	881,423
(a) Maturity Analysis		
Deposits are repayable over the following terms:		
On call	**669,736**	665,392
Up to 3 months	**129,866**	83,209
From 3 months to 6 months	**66,622**	59,657
From 6 months to 1 year	**60,800**	56,042
From 1 year to 5 years	**39,733**	16,249
No maturity	**902**	874
	967,659	881,423
(b) Concentration of Risk		
(i) As at 30 June 2012 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	**128,666**	125,028
(iii) The geographic concentration of deposits in the State of Victoria	**96%**	96%

NOTE 14: PAYABLES

	2012 $'000	2011 $'000
Accrued deposit interest	**5,444**	3,927
Creditors and accrued expenses	**2,879**	2,369
	8,323	6,296

	2012 $'000	2011 $'000
NOTE 15: BORROWINGS		
Securitised Funding	**22,966**	33,818
Settlement Accounts	**7,448**	7,674
	30,414	41,492
Maturity Analysis		
Borrowings will be repaid under current repayment conditions over the following periods:		
Up to 3 months	**7,893**	10,126
From 3 months to 1 year	**600**	5,808
From 1 year to 5 years	**276**	2,344
Later than 5 years	**21,645**	23,214
	30,414	41,492
NOTE 16: PROVISIONS		
Employee Entitlements	**1,860**	1,711
Directors' Severance Benefits*	**431**	553
RSA Contributions Tax	**164**	188
	2,455	2,452

At arriving at the Employee Entitlements the following variables were used:

Long Service Leave

→ Accrued at the rate of 13 weeks per 10 years of completed continuous service, and 1.3 weeks per year thereafter.

→ Probability factor of 30% in year 1 increasing to 100% from 7 years onwards.

→ Future increases in wage and salary rates including related on costs of 3% per annum.

→ Discounted using Commonwealth Government bond rates which have maturity dates approximating the terms of the company obligations. Average rate of 4.95%.

Annual Leave

→ Annual leave liabilities are expected to be settled within 12 months and are calculated at undiscounted amounts based on current wage and salary rates including related on costs at balance date.

***Directors' Severance**

→ Refer to Note 20(f) for details.

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

	2012 $'000	2011 $'000
Cash on hand	**684**	662
Deposits at call	**19,255**	6,932
	19,939	7,594

(ii) Reconciliation of operating profit after income tax

	2012 $'000	2011 $'000
to net cash provided by operating activities:		
Profit after income tax	**11,414**	9,916
Adjustments for:		
Profit on sale of non-current assets	**35**	11
Bad debts written off	**115**	149
Amounts set aside to provide for impairment	**292**	(133)
Depreciation and Amortisation	**432**	349
Net cash provided by operating activities before changes in working capital and provision	**12,288**	10,292
Decrease/(Increase) in deferred tax assets	**(53)**	20
[Increase] in interest receivable	**(76)**	(703)
Decrease/(Increase) in sundry debtors	**(58)**	14
Decrease/(Increase) in prepayments	**(45)**	36
Increase in interest payable	**1,517**	641
Increase in accrued expenses	**97**	410
Increase/(Decrease) in provision for employee entitlements	**149**	(52)
Increase/(Decrease) in taxes payable	**(592)**	332
Net Increase/(Decrease) in clearing accounts	**136**	(75)
Net (Increase) in loans and advances	**(125,229)**	(30,504)
Net increase in deposits	**86,208**	116,297
(Increase)/Decrease in receivables due from other financial institutions	**38,622**	(100,467)
Net Increase/(Decrease) in Settlement Accounts	**(226)**	(1,443)
Net cash flows from operating activities	**12,738**	(5,202)

	2012 $'000	2011 $'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	**22,440**	16,158
Undrawn continuing line of credit commitments	**43,489**	41,865
Balance available for redraw under redraw facilities of term loans	**95,299**	77,239
(ii) Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**1,013**	917
One year or later and no later than five years	**3,603**	2,891
(iii) Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	**–**	59

	2012 $	2011 $
NOTE 19: AUDITORS' REMUNERATION		
Auditors of the Company – KPMG Australia		
Audit of financial report	**83,591**	80,762
Other regulatory audit services	**71,449**	69,055
Tax	**20,272**	15,424
	175,312	165,241

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, D. R. Boell, M. Luttick and A. J. White

(b) Executives/Managers

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

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(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:

	2012 $	2011 $
Directors' Fees	**307,128**	263,987
Directors' Severance Benefits	**71,394**	75,118
Short-term employee benefits – salaries/fees/non-monetary benefits	**1,747,164**	1,649,400
Other long-term benefits	**51,606**	41,336
Post-employment benefits – superannuation contributions	**198,712**	239,869
	2,376,004	2,269,710

(e) Loans to key management personnel

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

	2012 $	2011 $
Balance owing as at 30 June	**289,435**	181,793
Summary of Transactions		
New Advances	**167,959**	–
Repayments made during the year	**82,507**	27,233
Interest Received on loans to key management personnel	**22,191**	12,953

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

(f) Severance benefits

A formal policy for directors' serverance benefits was approved at the Annual General Meeting in 2008. A director appointed prior to 18 November 2011 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. A director appointed post 18 November 2011 who is entitled to a severance benefit, is entitled to a sum not exceeding twelve months remuneration, calculated in accordance with s200F of the *Corporations Act (Cth) 2001*.

NOTE 20: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(f) Severance benefits (continued)

The severance benefit applies if a director ceases to be a director due to a change of control or merger or sale of a significate 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 or for director election and before that election takes place.

The amount provided for directors' severance benefit is estimated on an accurals basis even though a director may not have served the required term of office. The provision at 30 June 2012 is $430,607 (2011: $553,098) 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: 1 YEAR OR LESS	OVER 1 TO 5 YEARS	MORE THAN 5 YEARS	NON-INTEREST BEARING	TOTAL CARRYING AMOUNT AS PER BALANCE SHEET
30th June 2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
(i) Financial assets						
Cash and Cash Equivalents	19,255	–	–	–	684	19,939
Receivables	–	–	–	–	2,520	2,520
Term Deposits	–	124,456	–	–	–	124,456
Negotiable Certificates of Deposit	–	99,215	10,927	–	–	110,142
Loans and Advances	736,086	45,571	82,919	–	–	864,576
Equity Investments	904	–	–	–	1,515	2,419
	756,245	**269,242**	**93,843**	**–**	**4,719**	**1,124,052**
(ii) Financial liabilities						
Payables	–	–	–	–	8,323	8,323
Deposits	673,331	253,693	39,733	–	902	967,659
Borrowings	29,093	1,045	276	–	–	30,414
	702,424	**254,738**	**40,009**	**–**	**9,225**	**1,006,396**

NOTE 21: FINANCIAL INSTRUMENTS (continued)

(a) Interest rate risk (continued)

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS	OVER 1 TO 5 YEARS	MORE THAN 5 YEARS	NON-INTEREST BEARING	TOTAL CARRYING AMOUNT AS PER BALANCE SHEET
30th June 2011	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
(i) Financial assets						
Cash and Cash Equivalents	6,932	–	–	–	662	7,594
Receivables	–	–	–	–	2,620	2,620
Term Deposits	–	112,753	–	–	–	112,753
Negotiable Certificates of Deposit	–	160,467	–	–	–	160,467
Loans and Advances	619,489	29,943	101,059	–	–	950,491
Equity Investments	904	–	–	–	1,515	2,419
	627,325	**303,163**	**101,059**	**–**	**4,797**	**1,036,344**
(ii) Financial liabilities						
Payables	–	–	–	–	6,296	6,296
Deposits	670,478	193,822	16,249	–	874	881,423
Borrowings	30,888	8,260	2,344	–	–	41,492
	701,366	**202,082**	**18,593**	**–**	**7,170**	**929,211**

(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.

NOTE 21: FINANCIAL INSTRUMENTS (continued)

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

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(i) Financial assets				
Cash and liquid assets	**19,939**	7,594	**19,939**	7,594
Receivables	**2,520**	2,620	**2,520**	2,620
Term deposits	**124,456**	112,753	**124,522**	112,753
Negotiable certificates of deposit	**110,142**	160,467	**110,267**	160,467
Loans and advances	**864,576**	750,491	**867,570**	750,628
Equity Investments	**2,419**	2,419	**2,419**	2,419
Total financial assets	**1,124,052**	1,036,344	**1,127,237**	1,036,481
(ii) Financial liabilities				
Payables	**8,323**	6,296	**8,323**	6,296
Deposits	**967,659**	881,423	**965,765**	882,152
Borrowings	**30,414**	41,492	**30,411**	41,542
Total financial liabilities	**1,006,396**	929,211	**1,004,499**	929,990

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.

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

NOTE 22: FINANCIAL RISK MANAGEMENT (continued)

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, these industries are considered essential services and hence are stable industries 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.

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 2012, 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.

30 June 2012 Financial Liabilities ($'000)	CARRYING AMOUNT	CONTRACTUAL CASH FLOW	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
Deposits*	967,659	976,965	716,583	105,805	111,747	42,830	–
Trade and other Payables	8,323	8,323	8,323	–	–	–	–
Borrowings	30,414	30,412	7,893	–	604	270	21,645
Total	**1,006,396**	**1,015,700**	**732,799**	**105,805**	**112,351**	**43,100**	**21,645**

30 June 2011 Financial Liabilities ($'000)	CARRYING AMOUNT	CONTRACTUAL CASH FLOW	LESS THAN 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
Deposits*	881,423	882,152	666,995	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
Total	**929,211**	**929,940**	**680,965**	**85,661**	**121,507**	**18,593**	**23,214**

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

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 2012, a 1% increase or decrease in interest rates compared to actual rates would improve/(reduce) annual net interest income by the following amounts.

	2012 $'000	2011 $'000
1% increase	**2,726**	1,884
1% decrease	**(2,718)**	(1,893)

At 30 June 2012, a 1% increase or decrease in interest rates compared to actual rates would increase/(decrease) equity by the following amounts.

	2012 $'000	2011 $'000
1% increase	**503**	414
1% decrease	**(482)**	(386)

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.

NOTE 22: FINANCIAL RISK MANAGEMENT (continued)

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 minimum capital level determined by the Board exceeds the 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 21.7% of risk weighted assets as at 30 June 2012.

→ 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 2012.

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.

Directors' Declaration

TO THE MEMBERS OF POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

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 2012 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 18th day of September 2012

Signed in accordance with a resolution of the Directors.

L. D. ALLEMAND	**J. W. CAPEWELL**
Director	Director

Independent Auditor's Report

TO THE MEMBERS OF POLICE ASSOCIATION CREDIT CO-OPERATIVE LIMITED

REPORT 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 2012, 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 2012 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

KPMG

Chris Wooden
Partner

Melbourne

18 September 2012

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