BankVic

members matter

police, health,
emergency & public services

Annual Report 2013

Contents

Board of Directors and Management

Chairman
Lionel D. Allemand MAICD

Deputy Chairman
Wayne G. Taylor GAICD, MEd. (Monash), GradDipPubAdmin. (CSU), DipTrain (VU), DipCompanyDirectorship

Directors
David R. Boell AAICD, BBus (Monash)

John W. Capewell GAICD, GradCertCommercialLaw. (Deakin), GradDipAppFin, DipCompanyDirectorship

Marianne Luttick GAICD

P. John Mugavin FAICD, GradDipPub Admin. (CSU)

Adrian J. White GAICD, DipTrain (VU)

Chief Executive Officer
Peter Kempster MAICD, BCom (Hons) (Melb), MBA (Distinction), FCPA, ACA

Executive Manager – Finance
Paul Manning BSc (Hons), ACA

Executive Manager – Marketing and Sales
Melanie Dilges BAppSc, MBA (Melb), MMktg

Executive Manager – Corporate Governance, Company Secretary
Graham Ashworth LLB (Hons), MBA, GradDipCSA, ACIS ACSA

Executive Manager – Technology and Telecommunications
Graham Miller CertBus(Acc), GradDip(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
Customer Owned Banking Association, formally Abacus, Australian Mutuals

Indue Ltd.

Chairman's report

"On 1 June 2013, we changed our name from Police Credit to BankVic and moved from being a Credit Union to a Bank. In terms of day to day operations we remain 100% member owned and committed to you, our members."

Chairman
Lionel D. Allemand

It is a pleasure for me to say that the overall feedback on the change has been very positive and I would like to thank all our members who have taken the time to give us feedback.

As you will be aware, the Australian economy has struggled this year. However, as a result of our very attractive loan and deposit rates, we have continued to grow our balance sheet and remain profitable. Overall, loans have risen 7.7% and deposits 6.2%, and we thank our members for their continuing support. This is a great result given the economic conditions. Whilst some financial institutions have struggled, BankVic has moved from strength to strength and delivered a profit for the year of $10.4m and membership growth of 1.4%.

Your Board believe that the move to being a bank will encourage further membership growth in our core membership groups of Police, Health, Emergency and Public Services. You, our members, can assist that growth by continuing to recommend our products and services to your friends and family. Remember, the more we grow the more we can continue to invest in products and services for all members to benefit.

During 2012/13, we have upgraded our internet banking and mobile banking sites and launched 'pay anyone' - a service to assist you paying money via a person's email or mobile phone number. These have been major improvements to our systems and the Board is proud of the work completed by staff on these exciting projects.

This year, BankVic has won a number of major awards for its products and services. This includes winning six prestigious *Cannex* "5 Star" awards, four for our home/investment loan products and two for our credit card products. In addition to this, during the year we also won *Money* magazine's Credit Union of the Year award – a reflection of our commitment to delivering quality products and services.

We continue to extend our support to key community groups relevant to our members, including our partnership with the Blue Ribbon Foundation, Police Legacy, Limbs 4 Life, Police Games and Monash Health. In addition, this year we have extended this to Northern Heath, Western Health, the Mercy and St Vincent's hospitals.

We have been saddened by the passing of former General Manager and Director Ron Clapton in 2012 as well as former Directors Morrie Buchan and Tom Rippon this year. All were well known in the police community and supporters of the push for the establishment of our organisation. Ron served as General Manager between 1974-87 as a well as a Director between 1974-83. Tom, who also served as Secretary of the Police Association, was a Director between 1987-96, while Morrie served as a Director between 1974 and 2011. Morrie as a foundation member was also our longest serving Director as well as Chairman between 1985-86 and 1986-7.

Overall it has been a very successful year. Your Board thanks you, our members, for your continued support and I would also like to thank all Directors and staff for their hard work and support over the last year.

As I will not be seeking re-election as a Director beyond my current term, I would also like to take this opportunity to state that it has been a privilege to serve you as a Director since 1986, and Chairman since 1996. Naturally, I wish my successor, the Directors and above all you, the members, all the best for the future.

Lionel D Allemand
Chairman

Chief Executive Officer's report

Chief Executive Officer
Peter Kempster

BankVic – 100% Member owned, serving you and your community.

Being 100% member owned allows BankVic to focus on you. We know you want competitive interest rates, low fees and friendly personal service. So we remain committed to delivering these key attributes. Unlike the major banks, we are not trying to maximize returns and pay dividends to external shareholders. Our members work in police, health, emergency and public services, along with their family and friends. You serve the Victorian community – our role is to serve you.

We combine this member focus with a full personal banking product range. Our product choices have expanded considerably in recent years. In the most recent financial year we expanded our mobile banking to include a 'pay anyone' capability. This means if you don't know someone's bank account detail, you can use their email or mobile phone number to make a payment.

BankVic has a full array of home, investment, car and other loans, a range of home, motor, travel and other insurances, choice of VISA debit and credit cards and a variety of account, savings and financial planning options. Many of these products have received awards for the value they provide, with *Money* magazine recently naming us 2013 Credit Union of the Year.

We now provide the security of a bank. It is harrowing to read of people losing hard earned savings because they invested in get rich quick schemes or in organisations not regulated by the Australian Prudential Regulation Authority (APRA). BankVic is an APRA regulated bank and member deposits are protected (up to $250k) by the Australian Government's Financial Claims Scheme.

In 2012/13 BankVic grew stronger from your support. Member deposits grew 6.2% to exceed a billion dollars and our total assets increased 5.1% to $1.18b. This enabled us to expand lending to members by 7.7% and earn a profit of $10.4m. Our profit was 0.9% of assets, reflecting our member focus, but sufficient to prudently maintain a capital adequacy ratio of 21.7%, a ratio considerably higher than the major banks.

Your support enabled us to continue investing in technology, people and products. In addition to introducing our 'pay anyone' capability, we also invested in new desktop and mobile websites. Our websites now contain a wide range on content on products and services, member friendly calculators and tools, and extensive 'Self Service' content providing answers to frequently asked member questions. During the year, we also upgraded our webloan application software and added the facility for members to be able to change their PIN at Cashcard ATMs.

We continue to support the community. BankVic has valued relationships with a wide range of police and health related organisations which undertake much valued work in the Victorian community. Our website provides detail of these organisations and has links to enable members to donate to them. Examples of such organisations are the Blue Ribbon Foundation, Police Legacy and Limbs 4 Life.

Our staff are here to help. All our people who serve you are employed here, not offshore. We invest considerable resources in ensuring our staff are compliant with developing legislation, codes of practice, technology, products and service processes. Our staff also appreciate the time and effort you take to provide us with feedback. Thank you for the compliments our staff receive, and for your suggestions on how we might further improve our processes.

Please tell your friends about us. Membership growth allows us to meet increasing regulatory, technology and other costs and to invest in future products and services. BankVic is 100% member owned and a real alternative to the major banks. We exist to serve police, health, emergency and public services along with family and friends. So please recommend us to others. Our growth will help us serve you better in the future.

Thank you for your continued support.

Peter Kempster

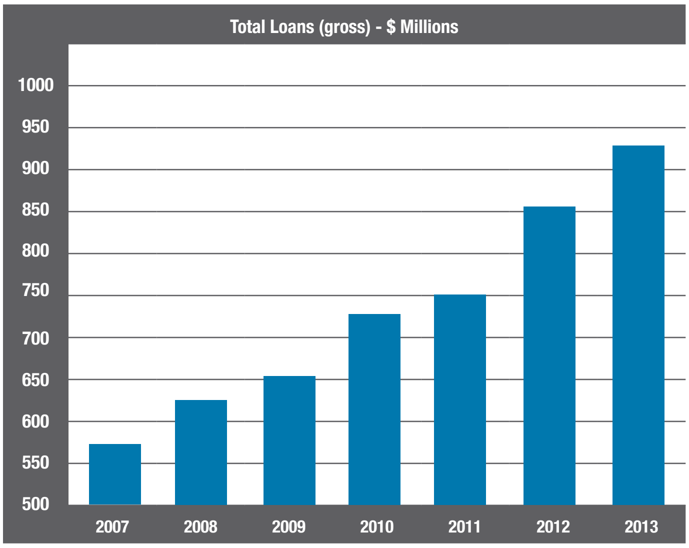
Peter Kempster
Chief Executive Officer

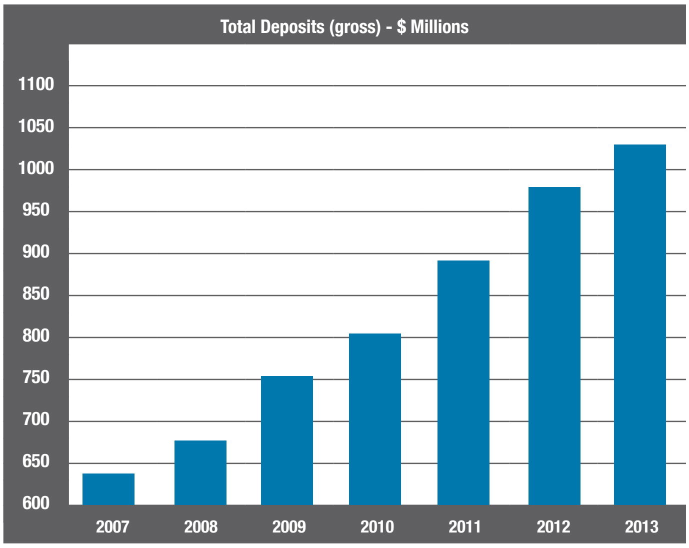
2012–13 Results Highlights

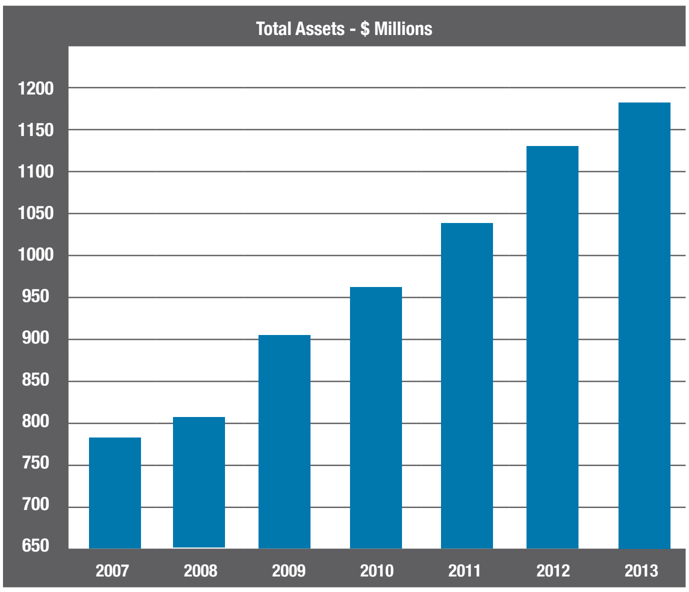
	2012–2013	2011–2012	Growth %
Shareholder Members	94,873	93,580	1.4%
Deposits $'000	1,027,225	967,659	6.2%
Assets $'000	1,183,445	1,126,132	5.1%
Members' Funds $'000	124,456	114,105*	9.1%
Profit After Tax $'000	10,351	10,144*	2.0%
Loans Outstanding (Gross) $'000	931,779	865,390	7.7%

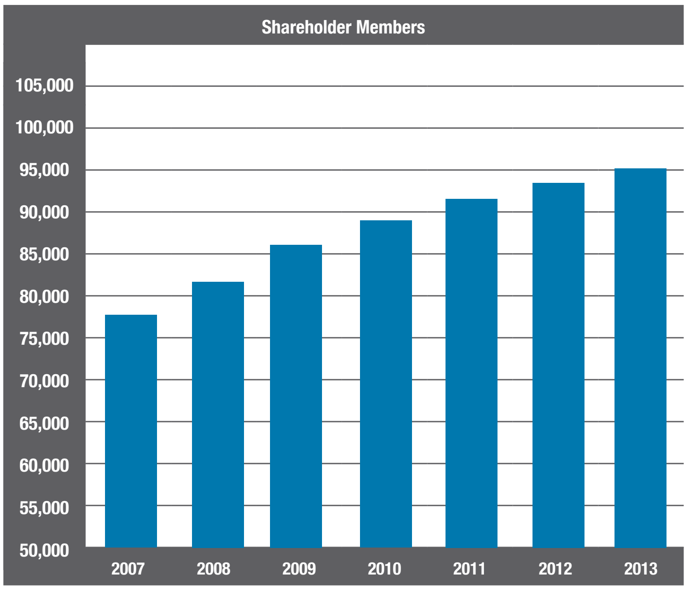
*These balances have been restated. See Note 2(e)

The value of loans funded since inception, (2 December 1974), totals $4,270,496,444.









Corporate Governance Statement

Corporate Governance Structure

As a company registered under the Corporations Act 2001 (Cth) and regulated by the Australian Securities and Investments Commission (ASIC), and as an authorised deposit-taking institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA), our organisation set itself new horizons in the financial year 2012/2013, changing our company name from Police Association Credit Co-operative Limited to Police Financial Services Limited and more recently in converting from the largest* credit union headquartered in Victoria, to Victoria's newest mutual bank.

While these changes may have raised our public profile, they do not affect our obligations to our members nor to the financial services industry generally. As a company and ADI regulated by ASIC and APRA, we have a continued focus on good governance, financial strength and security. We will continue to comply with the Corporations Act, the prudential standards prescribed by APRA and act in compliance with all other legal and ethical obligations relevant to our operation.

The Board acknowledges its obligation to manage the organisation's operations on behalf of members and continues to ensure it applies best practice standards of corporate governance. Through a number of high profile cases and decisions, in Australia and internationally, corporate Australia has been reminded of the duties and responsibilities of Directors.

Our Board of seven non-executive Directors, are independent and elected by our shareholders (members). Each Director candidate is assessed for fitness and propriety, as required under APRA's Australian Prudential Standard 520. Directors also 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 BankVic. Additionally, our Board Renewal Policy endeavours to ensure that the Board remains open to new ideas and independent thinking, while retaining adequate expertise. This is achieved by providing a framework that allows the Board to manage its skills, experience and personal attributes to achieve the best overall balance.

Through the Corporate Governance Committee, which is accountable for the maintenance and delivery of governance standards, the Board strives to ensure that as a mutual bank, BankVic's reputation and business ethics are of the highest standard. For example, any conflicts of interest are disclosed at the commencement of each Board meeting and any material matters are disclosed by new Directors and annually as part of their annual fitness and propriety assessment.

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.

* based on total assets.

Board Performance

The Board acknowledges its accountability to BankVic members and aims to ensure BankVic 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, of the Board as a group and of each Board Committee;
- ensuring there are adequate plans and procedures for succession planning;
- identifying and monitoring the principal business and prudential risks;
- monitoring the financial performance of BankVic;
- ensuring compliance in both letter and spirit with BankVic'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 BankVic to its Chief Executive Officer and Executive Management team.

Corporate Governance Statement

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 Board Committees and the Board's 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 BankVic; 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.

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 our Board Renewal policy and with good governance principles, during the year some rotation of committee members took place. David Boell replaced Wayne Taylor as chair of the Audit and Risk Management Committee and Wayne Taylor replaced John Capewell as deputy chair of the Board and Chair of the Remuneration Committee. Marianne Luttick joined the Audit and Risk Management Committee, Adrian White joined the Corporate Governance Committee and David Boell joined the Remuneration Committee.

Audit and Risk Management Committee

Chairman:
W. G. Taylor (to 23 April 2013)

D. R. Boell (from 23 April 2013)

Members:

D. R. Boell; M. Luttick (from 19 February 2013); W. G. Taylor; A. J. White (to 23 October 2012); P. J. Mugavin

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:
J. W. Capewell

Members:

L. D. Allemand; J. W. Capewell; M. Luttick and A. J. White (20 November 2012)

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 persons; and
> oversee the compliance of responsible managers to the statutory obligations within the Corporations Act 2001 (Cth) (Australian Financial Services Licence) and National Consumer Credit Protection Act 2009 (Cth) (Australian Credit Licence) regarding fitness and propriety, conflicts of interest and professional development.

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

Remuneration Committee

Chairman:

J. W. Capewell (to 20 November 2012)

W.G. Taylor (from 20 November 2012)

Members:

L. D. Allemand, P. J. Mugavin, W. G. Taylor and from 20 November 2012, D. R. Boell replaced J. W. Capewell as a member of this committee.

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; and
> 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)

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. BankVic 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 judgment to undertake the role.

In order to assist Director nominees in understanding and complying with these requirements, BankVic 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 experienced advisors, independent of BankVic.

As the nominations received for the 2012 Election of Directors equalled the number of positions to be filled, and these nominations were from the retiring Directors, the Nominations Committee was not required to meet.

Directors' report

Chairman
Lionel D. Allemand

Deputy Chairman
Wayne G. Taylor

Director
John W. Capewell

Director
P. John Mugavin

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. Experience – Director since 1986. Member Corporate Governance Committee. Member Remuneration Committee. Chairman Nominations Committee, Board Chairman since 1996, Chairman of Federation of Police Mutuals.

Wayne G. Taylor GAICD, MEd (Monash), GradDipPub Admin (CSU), DipTrain (VU), DipCompany Directorship

Deputy Chairman from 20 November 2012. Experience – Director since 2009. Chairman Audit and Risk Management Committee (to 23 April 2013). Chairman Remuneration Committee from 20 November 2012.

John W. Capewell GAICD, GradDipAppFin. DipCompanyDirectorship, GradCertCommercialLaw (Deakin)

Deputy Chairman to 20 November 2012. Experience – Director since 1999. Chairman Remuneration Committee to 20 November 2012 and Chairman Corporate Governance Committee.

P. John Mugavin FAICD, GradDipPubAdmin (CSU)

Director. Experience – Director since 1998. Member Audit and Risk Management Committee, Member Remuneration Committee.

David R. Boell AAICD, BBus (Monash)

Director. Experience – Director since 2009. Member and Chairman (from 23 April 2013) Audit and Risk Management Committee. Member Remuneration Committee (from 20 November 2012).

Marianne Luttick GAICD

Director. Experience – Director since 2011. Member Corporate Governance Committee and Member Audit and Risk Management Committee (from 20 November 2012).

Adrian J. White GAICD, DipTrain (VU)

Director. Experience – Director since 2011. Member Audit and Risk Management Committee (to 20 November 2012) and Member Corporate Governance Committee (from 20 November 2012).

Director
David R. Boell

Director
Marianne Luttick

Director
Adrian J. White

Company Secretary

Mr. Graham Ashworth LLB (Hons), MBA, GradDipCSA, ACIS, ACSA

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

POLICE FINANCIAL SERVICES LIMITED $1 WITHDRAWABLE SHARES

Mr. L. D. Allemand 10
Mr. J. W. Capewell 10
Mr. P. J. Mugavin 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, 4 Corporate Governance Committee, 4 Audit and Risk Management Committee, 2 Remuneration Committee and no Nomination Committee meetings were held. The number of meetings attended by each Director was as follows:

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

Director	Board meetings		Audit and Risk Management Committee meetings		Corporate Governance Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	A	B	A	B	A	B	A	B	A	B
Mr. L. D. Allemand	12	11	-	-	4	4	2	2	-	-
Mr. J. W. Capewell	12	12	-	-	4	4	2	2	-	-
Mr. P. J. Mugavin	12	12	4	4	-	-	2	2	-	-
Mr. W. G. Taylor	12	12	4	4	-	-	2	2	-	-
Mr. D. R. Boell	12	11	4	3	-	-	-	-	-	-
Ms. M. Luttick	12	12	2	2	4	4	-	-	-	-
Mr. A. J. White	12	12	2	2	3	3	-	-	-	-

2. Principal Activities

During the year there were no significant changes to the principal activities of the Company, these being the provision of deposit taking facilities, credit facilities and related financial services.

Directors' report

3. Results of Operations

Profit after tax of the Company for the financial year was $10,351k (2012: $10,144k).

4. Review of Operations

Growth

Over the past 12 months assets increased by 5.1%. Deposits increased by 6.2% reflecting continued member support. Loan demand continued, despite a slowing in the home loan market, with gross loans increasing by 7.7%.

During the year membership grew 1.4% reflecting continuing interest within the Company's target markets for the products and services offered by BankVic and the success of new member campaigns.

Profitability

Profit for the year after income tax was $10.4 million, an increase of 2.0% over the previous year. Net Interest Income for the year was $32.4 million, an increase of 1.2% over the previous year. Operating expenses for the year were $24.9 million, an increase of 2.6% compared to the previous year.

Capital Adequacy

As a mutual bank, BankVic is reliant on retained earnings as the major source of its capital. Therefore, it is necessary to ensure profits support asset growth to maintain an adequate level of capital.

Capital adequacy increased during the year from 21.1% in 2012 to 21.7% in 2013 of risk-weighted assets, significantly above the minimum level (12%) required to be maintained pursuant to Prudential Standards, as determined by APRA.

The Impetus Funding Trust No. 1 which was created during the year has no impact on capital adequacy as it is an internal securitisation.

Products and Services

BankVic offers financial services and products to our members. During the year we expanded both our product and service offering with the introduction of Paywave on Visa credit cards and mobile banking to include a 'pay anyone' capability. We also invested in new desktop and mobile websites. Our websites now contain a wide range of content on products and services, member friendly calculators and tools, and extensive 'Self Service' content providing answers to frequently asked questions.

5. Dividends

No dividends have been paid or declared since the end of the previous financial year (2012: Nil).

6. Share Issues

The only shares issued by the Company during the year were 43,110 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 30,180 $1 redeemable preference shares redeemed during the year.

7. State of Affairs

During 2012 / 2013 Police Association Credit Co-Operative Limited changed its name to Police Financial Services Limited and commenced trading as BankVic on the 1 June 2013.

There are no other 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, BankVic will continue its investment in technology and the development of new products. As a result, BankVic expect future innovation over the next year to include both the launch of a prepaid foreign currency travel card and a mobile banking application for tablets and phones.

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 2013.

Signed this 24th day of September 2013, in accordance with a resolution of the Board of Directors.

Lionel D Allemand
Chairman

W.G Taylor
Director

Lead Auditor's Independence Declaration

To: the Directors of Police Financial Services Limited (formerly Police Association Credit Cooperative Limited)

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 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
24 September 2013

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Statement of Comprehensive Income

	Note	2013 $'000	2012 Restated* $'000
Interest income	4a	**66,026**	71,788
Interest expense	4b	**(33,644)**	(39,784)
Net interest income		**32,382**	32,004
Other income	4c	**7,271**	6,824
Total income		**39,653**	38,828
Impairment losses on loans and advances (net of recoveries)	4d	**(138)**	(377)
Other expenses	4e	**(24,865)**	(24,231)
Profit before income tax expense		**14,650**	14,220
Income tax expense	5	**(4,299)**	(4,076)
Profit for the period		**10,351**	10,144
Other comprehensive income		**-**	-
Total comprehensive income		**10,351**	10,144
Total comprehensive income available to members		**10,351**	10,144

* See note 2(e) and note 5.

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

Balance Sheet

	Note	30 June 2013 $'000	30 June 2012 Restated* $'000	1 July 2011 Restated* $'000
Assets				
Cash and Cash Equivalents	6	**25,559**	19,939	7,594
Receivables Due from Other Financial Institutions	7	**221,250**	234,598	273,220
Accrued Receivables and Other Assets	8	**2,174**	2,520	2,620
Loans and Advances (Net)	9	**930,975**	864,576	750,491
Other Investments	10	**1,515**	2,419	2,419
Property, Plant and Equipment	11	**438**	550	430
Intangible Assets	12	**156**	278	125
Deferred Tax Asset	5	**1,378**	1,252	1,199
TOTAL ASSETS		**1,183,445**	**1,126,132**	**1,038,098**
Liabilities				
Deposits	13	**1,027,225**	967,659	881,423
Payables	14	**6,514**	8,323	6,296
Borrowings	15	**21,319**	30,414	41,492
Current Tax Liability		**1,069**	3,176	2,474
Provisions	16	**2,862**	2,455	2,452
TOTAL LIABILITIES		**1,058,989**	**1,012,027**	**934,137**
NET ASSETS		**124,456**	114,105	103,961
Members' Funds				
Reserves		**15,419**	15,385	15,324
Redeemed Capital Reserve		**308**	278	248
Retained Earnings		**108,729**	98,442	88,389
TOTAL MEMBERS' FUNDS		**124,456**	**114,105**	**103,961**

* See note 2(e) and note 5.

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

Statement of Changes in Equity

	General Reserve $'000	General Reserve for Credit Losses $'000	Redeemed Preference Share Capital Account $'000	Retained Earnings Restated* $'000	Total Member Funds $'000
Balance as at 1 July 2011	15,000	324	248	88,389	103,961
Increase in reserve during the year	–	61	–	(61)	–
Transfer from retained earnings	–	–	30	(30)	–
Profit or loss	–	–	–	10,144	10,144
Balance as at 30 June 2012	15,000	385	278	98,442	114,105
Balance as at 1 July 2012	15,000	385	278	98,442	114,105
Increase in reserve during the year	–	34	–	(34)	–
Transfer from retained earnings	–	–	30	(30)	–
Profit or loss	–	–	–	10,351	10,351
Balance as at 30 June 2013	**15,000**	**419**	**308**	**108,729**	**124,456**

* See note 2(e) and note 5.

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

Statement of Cash Flows

	Note	2013 $'000	2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**66,464**	71,712
Interest paid		**(35,273)**	(38,267)
Other income received		**7,295**	6,763
Cash payments to suppliers and employees		**(24,373)**	(23,394)
Net (increase) in loans and advances		**(71,910)**	(125,229)
Net increase in deposits		**59,547**	86,208
Net decrease/(increase) in receivables due from other financial institutions		**14,252**	38,622
Income tax paid		**(6,547)**	(3,451)
Net Increase/(decrease) in settlement accounts		**(3,736)**	(226)
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**5,719**	12,738
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**-**	66
Payments for property, plant and equipment		**(117)**	(239)
Capitalisation of other assets		**-**	(248)
Net Cash outflow used in Investing Activities		**(117)**	(421)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in member shares		**18**	28
Net Cash inflow provided by Financing Activities		**18**	28
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**5,620**	12,345
Cash and cash equivalents at Beginning of Financial Year		**19,939**	7,594
Cash and cash equivalents at End of Financial Year	17(i)	**25,559**	19,939

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

Notes to and forming part of the Financial Statements

1. Reporting Entity

Police Financial Services Limited (the “Company”), formerly Police Association Credit Co-operative Limited, is a company domiciled in Australia.

The Company is a for profit entity which 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 24 September 2013.

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 and presentational 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 22 – Financial Instruments

Notes to and forming part of the Financial Statements

e. Restatement of Income Tax Expense

During the course of the current financial year we have become aware of the fact that income tax has been incorrectly calculated which has resulted in an understatement of income tax expense in the prior periods. BankVic has voluntarily disclosed this matter to the Australian Taxation Office and remitted the appropriate income tax of $2,705,723 on 8 March 2013.

As a result the comparative figures summarised in the following table have been restated:

	30 June 2012 $'000	Increase / (Decrease) $'000	30 June 2012 (Restated) $'000	1 July 2011 $'000	Increase/ (Decrease) $'000	1 July 2011 (Restated) $'000
Statement of financial position (extract)						
Current tax liabilities	470	2,706	3,176	1,038	1,436	2,474
Net Assets	**116,811**	**(2,706)**	**114,105**	**105,397**	**(1,436)**	**103,961**
Retained earnings	101,148	(2,706)	98,442	89,825	(1,436)	88,389
Total Members' Funds	**116,811**	**(2,706)**	**114,105**	**105,397**	**(1,436)**	**103,961**

	30 June 2012 $'000	Profit Increase/ (Decrease) $'000	30 June 2012 (Restated) $'000
Statement of Comprehensive Income (extract)			
Income Tax Expense	(2,806)	1,270	(4,076)
Profit for the year	**11,414**	**(1,270)**	**10,144**

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 de-recognised, 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).

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 on 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.

During the year the Impetus Funding Trust No. 1 was established for the purpose of creating a special purpose vehicle for contingent liquidity purposes. A portion of the loan portfolio has been internally securitised specifically to create residential mortgage backed securities that are eligible for repurchase agreement (repo) with the Reserve Bank of Australia (RBA). These loans are treated as on balance sheet assets for reporting purposes.

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 on the balance sheet of the Company, in accordance with this policy.

Notes to and forming part of the Financial Statements

f. Derecognition of financial assets and liabilities

i. Financial assets

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

> the right to receive cash flows from the asset has expired;

> the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

> the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risk and rewards of the asset; or (b) has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset.

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

ii. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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 cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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

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

ii. Reversals of impairment

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

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

i. Employee benefits

i. Long-term service benefits

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

ii. Wages, salaries, annual leave, sick leave and non-monetary benefits

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

iii. Superannuation

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

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

j. Provisions

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

k. Trade and other payables

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

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.

Notes to and forming part of the Financial Statements

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

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

m. Goods and services tax

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

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

n. Revenue

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

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.

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.

AASB 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Company may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The extent of the impact of AASB 10 on the Company has not been determined.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for its interests in the Impetus funding Trust No. 1 discussed in note 3(e). AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

AASB 10 and AASB 12 are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

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.

Notes to and forming part of the Financial Statements

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.

	2013 $'000	2012 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**54,166**	54,351
Commercial Loans	**19**	23
Amounts from other Financial Institutions	**10,617**	15,352
Securitised Loans	**1,224**	2,062
Total Interest Income	**66,026**	71,788
b. Interest Expense		
Member Deposits	**32,707**	37,866
Securitised Loans	**931**	1,918
Other	**6**	-
Total Interest Expense	**33,644**	39,784
c. Other Income		
Fees and Commissions	**4,475**	4,229
Insurance Commissions	**2,340**	2,121
Other Income	**387**	378
Rental Income	**69**	61
Profit on Sale of Property, Plant and Equipment	**-**	35
Total Other Income	**7,271**	6,824
d. Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**163**	115
Increase/(decrease) in Provision for Impairment	**(10)**	292
Bad Debts Recovered	**(15)**	(30)
	138	377

Notes to and forming part of the Financial Statements

	2013 $'000	2012 $'000
Note 4: Profit (continued)		
e. Other expenses		
Depreciation and amortisation	**351**	432
Amounts set aside to provide for employee entitlements	**436**	228
Administration costs	**3,079**	2,907
Personnel costs	**10,121**	9,593
Superannuation	**700**	636
Supervision levy	**93**	45
Audit fees	**236**	240
Visa card costs	**4,293**	5,051
Marketing costs	**943**	620
Information technology costs	**2,448**	2,330
Operating lease rentals	**832**	779
Occupancy costs	**463**	450
Directors' fees	**328**	307
Directors' severance benefits	**89**	71
Insurance – general	**130**	111
Other expenses	**323**	431
	24,865	24,231

	2013 $'000	2012 Restated* $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**4,474**	4,207
Under/(Over) Provided in Prior Year	**(49)**	(81)
	4,425	4,126
Deferred tax expense		
Origination and Reversal of Temporary Differences	**(126)**	(50)
Total Income Tax Expense in Income Statement	**4,299**	4,076
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**14,650**	14,220
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	**4,396**	4,266
Increase in income tax expense due to:		
- Non-deductible expenses	**2**	2
Decrease in income tax expense due to:		
- Non-assessable income	**(50)**	(111)
	4,348	4,157
Under/(Over) provided in prior year	**(49)**	(81)
Income tax expense on pre-tax profit	**4,299**	4,076

	Assets 2013 $'000	Assets 2012 $'000	Liabilities 2013 $'000	Liabilities 2012 $'000	Net 2013 $'000	Net 2012 $'000
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(241)**	(244)	–	–	**(241)**	(244)
Provision for Directors' Severance Benefits	**(156)**	(129)	–	–	**(156)**	(129)
Property, Plant and Equipment	**(234)**	(273)	–	–	**(234)**	(273)
Payables	**(88)**	(48)	–	–	**(88)**	(48)
Employee Entitlements	**(659)**	(558)	–	–	**(659)**	(558)
Net tax (assets)/liabilities	**(1,378)**	(1,252)	–	–	**(1,378)**	(1,252)

Notes to and forming part of the Financial Statements

	2013 $'000	2012 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**546**	684
Deposits at Call	**25,013**	19,255
	25,559	19,939

	2013 $'000	2012 $'000
Note 7: Receivables due from other Financial Institutions		
Certificates of Deposit	**109,094**	110,142
Term Deposits	**112,156**	124,456
	221,250	234,598
a. Maturity Analysis		
Up to 3 months	**161,208**	193,756
From 3 months to 3 years	**60,042**	40,842
	221,250	234,598
b. Market Value		
Certificates of Deposit/Term Deposits	**221,372**	234,789

In 2013, NCDs and Bank Term Deposits have an average maturity of 208 days (81 days 2012) with effective interest rates of 2.78% to 4.72% (3.55% to 5.85% 2012) p.a.

	2013 $'000	2012 $'000
Note 8: Accrued Receivables and Other Assets		
Interest receivable	**1,429**	1,868
Other	**745**	652
	2,174	2,520

	2013 $'000	2012 $'000
Note 9: Loans and Advances		
Continuing credit facilities	**18,692**	18,470
Other loans and advances *	**895,265**	823,671
Directors and Director-related parties	**215**	283
Externally securitised loans	**17,607**	22,966
	931,779	865,390
Provision for impairment	**(804)**	(814)
Net loans and advances	**930,975**	864,576

* As at 30 June 2013 $122m of loans have been internally securitised via the Impetus Funding Trust No. 1. These loans are treated as on balance sheet. Refer note 3 (e).

	2013 $'000 Gross loans	2013 $'000 Provisions	2012 $'000 Gross loans	2012 $'000 Provisions
Note 9: Loans and Advances (continued)				
a. Maturity analysis				
Up to 3 months	**27,908**	**-**	27,240	(3)
From 3 months to 1 year	**29,320**	**(104)**	27,228	(12)
From 1 year to 5 years	**133,314**	**(63)**	119,611	(44)
Later than 5 years	**741,237**	**(637)**	691,311	(755)
	931,779	**(804)**	865,390	(814)
b. Loans by security				
Secured by mortgage	**876,145**	**(450)**	806,766	(450)
Secured other	**30,288**	**(82)**	32,628	(85)
Unsecured	**25,346**	**(272)**	25,996	(279)
	931,779	**(804)**	865,390	(814)
c. Loans by purpose				
Residential	**875,905**	**(450)**	806,505	(450)
Personal	**55,634**	**(354)**	58,624	(364)
Commercial	**240**	**-**	261	–
	931,779	**(804)**	865,390	(814)

	2013 $'000	2012 $'000
d. Concentration of risk		
i. As at 30 June 2013 there was no loan to any individual member, which represented 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	**330,589**	311,694
iii. The geographic concentration of loans in the State of Victoria	**96%**	97%
e. Provision for Impairment of Loans and Advances		
Balance at beginning of the year	**814**	522
Transfer from/(to) profit and loss account	**153**	407
Bad debts written off	**(163)**	(115)
Balance at the end of the year	**804**	814

Notes to and forming part of the Financial Statements

	2013 $'000	2012 $'000
Note 9: Loans and Advances (continued)		
The policy covering impaired loans and advances is set out in Note 3 (h).		
Non-accrual loans:		
Balances with provisions for impairment	**534**	525
Provision for impairment	**(804)**	(814)
Net non-accrual loans	**(270)**	(289)
Loan balances – 90 days past due	**230**	265
i. Interest income on non-accrual loans	**1**	4
ii. Interest forgone on non-accrual loans	**33**	40
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	**873,477**	810,099
Past due but not specifically impaired	**57,768**	54,766
Collectively Impaired		
Balances with provisions	**534**	525
Allowance for impairment	**(804)**	(814)
	(270)	(289)
Total	**930,975**	864,576

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

	2013 $'000	2012 $'000
Note 10: Other Investments		
Other Financial Assets – Shares in Indue Ltd	1,515	1,515
Subordinated deferred deposit – Indue Ltd	-	904
	1,515	2,419

Shares in Indue

The Company is a founding member and shareholder in Indue Ltd, a company established to provide payment related processing services. 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 subordinated deposit of $904,000 with Indue Ltd was repaid in November 2012.

Registered Charge

None.

	2013 $'000	2012 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	**2,224**	2,198
Less accumulated depreciation	**(2,190)**	(2,185)
	34	13
Plant and Office Equipment at cost	**5,153**	5,090
Less accumulated depreciation	**(4,749)**	(4,553)
	404	537
Total	**438**	550

	Leasehold Improvements $'000	Plant and Office Equipment $'000	Total $'000
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
2013			
Movement in the carrying amounts for Leasehold Improvements and Office Equipment			
Balance at 1 July 2012	13	537	550
Additions	26	63	89
Disposals	–	–	–
Depreciation expense	(5)	(196)	(201)
Carrying amount at 30 June 2013	**34**	**404**	**438**

Notes to and forming part of the Financial Statements

	2013 $'000	2012 $'000
Note 12: Intangible Assets – Software		
At cost	**2,264**	2,234
Accumulated amortisation	**(2,108)**	(1,956)
Net carrying amount	**156**	278
Carrying amount at the beginning of the year	**278**	125
Additions	**28**	306
Amortisation expense	**(150)**	(153)
Carrying amount at the end of the year	**156**	278
Note 13: Deposits		
Call deposits	**729,136**	673,331
Term deposits	**297,169**	293,426
Redeemable preference shares	**920**	902
	1,027,225	967,659
a. Maturity Analysis		
Deposits are repayable over the following terms:		
On call	**726,375**	669,736
Up to 3 months	**117,870**	129,866
From 3 months to 6 months	**97,082**	66,622
From 6 months to 1 year	**56,444**	60,800
From 1 year to 5 years	**28,534**	39,733
No maturity	**920**	902
	1,027,225	967,659
b. Concentration of Risk		
i. As at 30 June 2013 there was no member who individually held deposits which represented 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	**137,633**	128,666
iii. The geographic concentration of deposits in the State of Victoria	**96%**	96%
Note 14: Payables		
Accrued deposit interest	**3,815**	5,444
Creditors and accrued expenses	**2,699**	2,879
	6,514	8,323

	2013 $'000	2012 $'000
Note 15: Borrowings		
Securitised Funding	**17,607**	22,966
Settlement Accounts	**3,712**	7,448
	21,319	30,414
Maturity Analysis Borrowings will be repaid under current repayment conditions over the following periods:		
Up to 3 months	**3,712**	7,893
From 3 months to 1 year	**207**	600
From 1 year to 5 years	**228**	276
Later than 5 years	**17,172**	21,645
	21,319	30,414

Note 16: Provisions		
Employee Entitlements	**2,194**	1,860
Directors' Severance Benefits*	**520**	431
RSA Contributions Tax	**148**	164
	2,862	2,455

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 3.23%.

***Directors' Severance,** refer to Note 20(f) for details.

Notes to and forming part of the Financial Statements

	2013 $'000	2012 Restated $'000
Note 17: Statement of Cash Flows		
Reconciliation of profit after income tax to net cash flow from operating activities		
i. Reconciliation of Cash and Cash Equivalents		
Cash on hand	**546**	684
Deposits at call	**25,013**	19,255
	25,559	19,939
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit after income tax	**10,351**	10,144
Adjustments for:		
Profit on sale of non-current assets	**-**	35
Bad debts written off	**163**	115
Amounts set aside to provide for impairment	**(10)**	292
Depreciation and Amortisation	**351**	432
Net cash provided by operating activities before changes in working capital and provision	**10,855**	11,018
Decrease/(Increase) in deferred tax assets	**(126)**	(53)
(Increase)/Decrease in interest receivable	**439**	(76)
Decrease/(Increase) in other assets	**(93)**	176
(Decrease)/Increase in interest payable	**(1,629)**	1,517
(Decrease)/Increase in creditors and accrued expenses	**(180)**	193
Increase/(Decrease) in provision for employee entitlements	**334**	149
Increase/(Decrease) in taxes payable	**(2,123)**	678
Increase/(Decrease) in directors severance benefits	**89**	(122)
Net (Increase) in loans and advances	**(71,911)**	(125,346)
Net increase in deposits	**59,548**	86,208
(Increase)/Decrease in receivables due from other financial institutions	**14,252**	38,622
Net Increase/(Decrease) in Settlement Accounts	**(3,736)**	(226)
Net cash flows from operating activities	**5,719**	12,738

	2013 $'000	2012 $'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	**20,664**	22,440
Undrawn continuing line of credit commitments	**45,561**	43,489
Balance available for redraw under redraw facilities of term loans	**117,655**	95,299
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**1,053**	1,013
One year or later and no later than five years	**2,623**	3,603
iii. Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	**–**	–

	2013 $	2012 $
Note 19: Auditors' Remuneration		
Auditors of the Company – KPMG		
Audit of financial report	**83,591**	83,591
Other regulatory audit services	**71,449**	71,449
Tax	**16,755**	20,272
	171,795	175,312

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 areas follows: L. D. Allemand, 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

P. Manning, Executive Manager, Finance

G. Ashworth, Executive Manager, Corporate Governance, Company Secretary

G. Miller, Executive Manager, Technology and Telecommunications

M. Dilges, Executive Manager, Marketing and Sales

M. Ayres, Manager, Member Services and Insurance

J. Verga, Manager, Contact Centre

J. Taylor, Manager, Marketing (from 3/4/13)

Notes to and forming part of the Financial Statements

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:

	2013 $	2012 $
Directors' Fees	**328,124**	307,128
Directors' Severance Benefits	**88,946**	71,394
Short-term employee benefits – salaries/fees/non-monetary benefits	**1,857,245**	1,747,164
Other long-term benefits	**60,595**	51,606
Post-employment benefits – superannuation contributions	**114,488**	198,712
	2,449,398	2,376,004

e. Loans to key management personnel

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

	2013	2012
Balance owing as at 30 June	**219,947**	289,435
Summary of Transactions		
New Advances	**7,381**	167,959
Repayments made during the year	**92,811**	82,507
Interest Received on loans to key management personnel	**15,942**	22,191

The key personnel who held the loan/continuing credit accounts with the Company during the year were:

L. D. Allemand, D. R. Boell, M. Luttick, G. Miller, M. Dilges and M. Ayres.

f. Severance benefits

A formal policy for Directors' severance 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.*

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 accruals basis even though a Director may not have served the required term of office. The provision at 30 June 2013 is $519,553 (2012: $430,607) 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: Prudential Remuneration Disclosures

BankVic's Board Remuneration Committee oversees remuneration in accordance with the organisation's Remuneration Policy developed with reference to APRA's Prudential Standard CPS 510. The Committee for the 2012/13 year was comprised of Directors Mr John Capewell (Committee Chairman to 20 November 2012), Mr Wayne Taylor (Committee Chairman from 20 November 2012), Mr Lionel Allemand and Mr John Mugavin.

The Remuneration Committee met on two occasions during the year and no external consultants were engaged.

The Remuneration Policy provides a framework that allows the Board to align remuneration and risk management and encourage behaviour that supports the risk management framework of BankVic as an institution regulated by APRA. The Remuneration Policy was reviewed for the year with minor amendments only, reflecting changes to the description of relevant regulatory standards.

Through the work of the Remuneration Committee, the Board accepts responsibility for satisfying itself that the remuneration arrangements of the following persons is not contrary to the financial soundness of the organisation:

a. Company's Responsible Persons as defined by the APRA Prudential Standard CPS 520 Fit and Proper;
b. personnel whose role is primarily risk and/or financial control; and,
c. any other person or group of persons who receive significant performance based remuneration and either individually or collectively may make decisions that may affect the soundness of the institution (including persons who may not be directly employed by the Company such as contractors or persons employed by a related service company).

Included in these categories are the Chief Executive Officer, Executive Managers and others directly reporting to the Chief Executive Officer (seven persons in total) as well as managers for the Finance, Compliance, Operations and Credit Risk and Control functions.

The Remuneration Committee applies the principles outlined in CPS 510 including considering the inherent conflicts of interest between performance objectives and those personnel undertaking risk and financial control functions. The Board through the Committee has the discretion to adjust downward or eliminate performance based remuneration for these staff, if it takes the view this is necessary to protect the financial soundness of the organisation, or where material and unexpected outcomes arise. This is notwithstanding the achievement of any or all metrics nominated at the beginning or during the assessment period.

Through the Remuneration Committee's oversight and assessment as well as the capacity to exercise this discretion, the Board ensures that managers, or the financial performance of the business area they manage, do not predominantly determine the variable remuneration received by risk and financial control personnel.

The key risks the Company took into account when implementing remuneration measures this year included matters relating to liquidity, credit, counterparties, market issues, interest rate volatility, contagion, organisations the Company's membership may be associated with, key suppliers, general operations, information technology, staffing, strategic, fraud, occupational health and safety, financial planning, regulatory requirement, legal and pandemic. These risks did not materially change from those of the previous period.

As well as performance metrics including profitability, membership growth, product sales and cost control, key measures in assessing the risks listed above are used in setting remuneration. These are based on the extent to which the organisation's processes, monitoring and performance, conformed to best practice and demonstrated that robust and resilient controls for each risk identified were in place and that they were observed by all personnel. This is a component part of the defined performance assessment and reward scheme for staff and the remuneration arrangements for executives.

All variable remuneration is paid in cash and currently equity related payments, vesting and/or deferral arrangements are not entered into. Therefore, no arrangements to modify or clawback such remuneration has been necessary to take account of longer-term performance.

In regard to staff subject of CPS 510, eleven received variable remuneration awards during the financial year, while none received a guaranteed bonus, sign-on award or termination payment. No deferred remuneration is either outstanding or was paid during the year.

Notes to and forming part of the Financial Statements

The table below provides details of the total value of remuneration awards for senior managers/material risk-takers for the period:

	No. of Employees	$ Total
i. Total value of variable remuneration awards		
Variable remuneration award – bonus	11	248,978
Guaranteed bonuses	–	–
Sign-on award	–	–
Termination payments	–	–
Total	11	248,978

ii. Total value of remuneration awards for senior managers and staff whose primary role is risk and financial control.

Fixed Remuneration	**$ Unrestricted**	**$ Deferred**	**$ Total**
Cash Based	2,065,958	–	2,065,958
Shares	–	–	–
Other	208,233	–	208,233
	2,274,191	–	**2,274,191**
Variable Remuneration			
Cash Based	**248,978**	–	248,978
Shares	**–**	–	–
Other	**–**	–	–
	248,978	**–**	**248,978**
Total Value	**2,523,169**	**–**	**2,523,169**

Note 22 - Financial Instruments

a. Interest rate risk

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

Financial Instruments	Floating Interest Rate	Fixed Interest rate maturing in			Non-interest bearing	Total carrying amount as per Balance Sheet
		1 year or less	Over 1 to 5 years	More than 5 years		
30th June 2013	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	25,013	–	–	–	546	25,559
Receivables	–	–	–	–	2,174	2,174
Term Deposits	–	105,956	6,200	–	–	112,156
Certificates of Deposit	–	79,094	30,000	–	–	109,094
Loans and Advances	821,250	38,426	71,299	–	–	930,975
Equity Investments	–	–	–	–	1,515	1,515
	846,263	**223,476**	**107,499**	**–**	**4,235**	**1,181,473**
ii. Financial liabilities						
Payables	–	–	–	–	6,514	6,514
Deposits	729,136	268,634	28,534	–	920	1,027,224
Borrowings	20,884	207	228	–	–	21,319
	750,020	**268,841**	**28,762**	**–**	**7,434**	**1,055,057**

Notes to and forming part of the Financial Statements

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
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**

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.

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

Note 22: Financial Instruments (continued)

On Balance Sheet Financial Instruments	Total Carrying Amount as per Balance Sheet		Aggregate Net Fair Value	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
i. Financial assets				
Cash and liquid assets	**25,559**	19,939	**25,559**	19,939
Receivables	**2,174**	2,520	**2,174**	2,520
Term deposits	**112,156**	124,456	**112,203**	124,522
Certificates of deposit	**109,094**	110,142	**109,169**	110,267
Loans and advances	**930,975**	864,576	**931,633**	867,570
Equity Investments	**1,515**	2,419	**1,515**	2,419
Total financial assets	**1,181,473**	1,124,052	**1,182,253**	1,127,237
ii. Financial liabilities				
Payables	**6,514**	8,323	**6,514**	8,323
Deposits	**1,027,225**	967,659	**1,026,415**	965,765
Borrowings	**21,319**	30,414	**21,317**	30,411
Total financial liabilities	**1,055,058**	1,006,396	**1,054,246**	1,004,499

Note 23: 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.

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.

Notes to and forming part of the Financial Statements

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 the Company 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, health, emergency and public services industries. 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.

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 2013, the Company had 20.9% of total liabilities as liquid assets and HQLA ratio 14.2%. Various trigger levels have been set to ensure appropriate measures are undertaken to maintain liquidity above the minimum level.

The company has a repurchase agreement (repo) in place with the Reserve Bank of Australia (RBA) which provides an additional source of contingent liquidity.

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

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 2013

Financial Liabilities ($'000)	Carrying Amount	Contractual Cash Flow	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	More than 5 years
Deposits*	1,027,225	1,035,207	774,467	113,570	116,098	31,072	–
Trade and other Payables	6,514	6,514	6,514	–	–	–	–
Borrowings	21,319	21,318	3,712	–	207	227	17,172
Total	**1,055,058**	**1,063,039**	**784,693**	**113,570**	**116,305**	**31,299**	**17,172**

30 June 2012

Financial Liabilities ($'000)	Carrying Amount	Contractual Cash Flow	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 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**

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

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.

Notes to and forming part of the Financial Statements

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

	2013 $'000	2012 $'000
1% increase	3,006	2,726
1% decrease	(2,992)	(2,718)

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

	2013 $'000	2012 $'000
1% increase	755	503
1% decrease	(739)	(482)

Capital Management

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

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

The Company has established a management information system for measuring and reporting capital to the Board. The current strategy is for the Company's core capital to be derived entirely from retained earnings.

Maintenance of adequate capital over time therefore depends on balancing profit after tax with growth in risk-weighted assets. Note that the minimum capital level determined by the Board exceeds the minimum level required pursuant to the APRA's 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 2013.

> 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 0.1% of risk weighted assets as at 30 June 2013.

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 24: Regulatory Capital Reconciliation

i. Tier 1 Capital	**$'000**
General Reserve	15,000
Redeemed Preference Share Capital Account	308
Retained Earnings	108,729
	124,037
Less Deduction's from Tier 1 Capital	
Deferred Tax Assets	(1,378)
Intangible Assets – Software	(156)
Equity Investment in Indue Ltd	(1,515)
	(3,049)
Total Tier 1 Capital	**120,987**
ii. Tier 2 Capital	
Provision for General Reserve	419
Total Tier 2 Capital	**419**
Total Regulatory Capital	**121,407**
iii. Capital Ratios	
Tier 1 Capital	**21.7%**
Total Regulatory Capital	21.7%
Reconciliation of Regulatory Capital to Balance Sheet	
Total Members Funds	124,456
Less Deductions from Tier 1 Capital	(3,049)
Total Regulatory Capital	**121,407**

Police Financial Services Limited is using the post 1 January 2018 common disclosure template because it is fully applying the Basel III regulatory adjustments as implemented by APRA.

Legal Entities included
Police Financial Services Limited
Impetus Funding Trust No. 1

Note 25: Investments in Related Entities

During the year the Impetus Funding Trust No. 1 was established for the purpose of creating a special purpose vehicle for contingent liquidity purposes. A portion of the loan portfolio has been internally securitised specifically to create residential mortgage backed securities that are eligible for repurchase agreement (repo) with the Reserve Bank of Australia (RBA). As the risks and rewards of ownership remain with the Company, these loans are treated as on balance sheet assets for reporting purposes. As at 30 June 2013 the carrying value of these assets were $122m.

Notes to and forming part of the Financial Statements

Note 26: 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

In the opinion of the Directors of Police Financial Services Limited (the Company):

a. the financial statements and notes set out on pages 19 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 2013 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 24th day of September 2013

Signed in accordance with a resolution of the Directors.

L. D. ALLEMAND
Director

W. G. TAYLOR
Director

Independent Auditor's Report

KPMG

To the members of Police Financial Services Limited

Report on the financial report

We have audited the accompanying financial report of Police Financial Services Limited (formerly Police Association Credit Cooperative Limited) (the Company), which comprises the statement of financial position as at 30 June 2013, 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 26 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 Financial Services 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 2013 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
24 September 2013

Police Financial Services Limited
ABN 33 087 651 661 AFSL 240293 Australian Credit Licence 240293
121 Cardigan Street Carlton 3053 PO Box 669 Carlton South 3053
T 13 63 73 F 03 9349 3113 **bankvic.com.au**

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