BankVic

Annual Report 2015

Contents

Board of Directors and Management

Chairman

P. John Mugavin GradDipPubAdmin, FAICD, FAIM

Deputy Chairman

David R. Boell BBus, AAICD

Directors

John W. Capewell GradDipAppFin, DipCompanyDirectorship, GradCertCommercialLaw, GAICD

Steven J. Coulson BCom, GradDipFraudInvestigation, DipCompanyDirectorship, CPA, CFE, GAICD, FAIM

Marianne Luttick GAICD, FAIM

Wayne G. Taylor MEd, GradDipPubAdmin, DipTrain, DipCompanyDirectorship, FAICD, FAIM

Adrian J. White DipTrain, GradCertAppliedManagement, GAICD

Company Secretary

Graham Ashworth LLB (Hons), MBA, GradDipCSA, ACIS ACSA until 23 June 2015

Grant Earney BCom, FCA from 23 June 2015

Karen Mathers BCom, GradDipInsolvency, ACA 23 June 2015

Chief Executive Officer

Peter Kempster BCom (Hons), MBA (Distinction), FCPA, ACA, GAICD until 31 January 2015

Stephen Capello BCom, MBA (Distinction), FCPA from 1 February 2015

Executive Manager – Finance

Stephen Capello BCom, MBA (Distinction), FCPA until 31 January 2015

Grant Earney BCom, FCA from 20 April 2015, Company Secretary from 23 June 2015

Executive Manager – Marketing and Member Development

Melanie Dilges BAppSc, MBA, MMktg

Executive Manager – Corporate Governance

Graham Ashworth LLB (Hons), MBA, GradDipCSA, ACIS ACSA until 23 June 2015

Executive Manager – Technology and Telecommunications

Graham Miller CertBus(Acc), GradDip(A.I.S.), MACS PCP; MISACA

Executive Manager – Lending

Neill McCann BCom, MBA(Ad), CPA until 26 March 2015

Executive Manager – Service and Sales

Rosemary Boissezon GradDipBank&Fin, Dip Mort Lend, FSIA (Snr Associate)

Chief Risk Officer, Company Secretary

Karen Mathers BCom, GradDipInsolvency, ACA from 25 August 2014, Company Secretary from 23 June 2015

Auditors

KPMG
147 Collins Street, Melbourne 3000

Solicitors

Wisewould Mahony
413 Collins Street, Melbourne 3000

Banker

Westpac Banking Corporation

Affiliations

Customer Owned Banking Association
Indue Ltd.

BankVic
To the members of BankVic

Chairman's report

Chairman
P. John Mugavin

Welcome to the BankVic 2015 Annual Report

As Chairman of BankVic I would like to sincerely thank members for your continued support. We remain committed to our principles of being a member owned bank that puts members first and our board is focused on increasing the value we return to our most valuable assets, our members.

Again this year we received recognition of our status as a significant mutual bank in Australia by winning eight 5 star CANSTAR awards for our savings and credit card products. It's reassuring to know that when we are independently assessed our products stand out amongst the best in the Australian market.

In the past year we've targeted our investment and demonstrated our commitment to member service in numerous ways. Our City West branch opened, enabling us to serve the large number of Police working in the new police complex.

Our members benefited with a number of competitions, campaigns and giveaways throughout the year, which have assisted us in growing lending and investments for members as well as facilitating the awareness of BankVic, and increasing memberships amongst the member groups we serve.

In December 2014, BankVic proudly celebrated its 40 year anniversary since inception as Police Association Credit Cooperative Limited. From humble beginnings, BankVic has grown into a strong and successful bank, which remains committed to the same values, and principles that have guided us well for 40 years.

In commemoration of this milestone and, in partnership with our partner CGU we were pleased to present long time member Mark Nolan with a new car prize package, the single biggest prize in our organisation's history.

After more than seven years of service to BankVic, Peter Kempster, Chief Executive Officer retired. On behalf of the board I would like to thank Peter for his dedication and commitment. Peter oversaw a sustained period of growth and navigated us through the global financial crisis, whilst ensuring members' interests were always paramount.

In January 2015 our Executive Manager of Finance Stephen Capello was appointed as our new CEO. Stephen brings with him much enthusiasm, passion and global banking experience and will drive an agenda of modernisation for the Bank to ensure we continue to respond to your needs now and in the future.

BankVic has extended its strong support of the Police, Health, Emergency and Public Service communities in which our members work including the Victorian Police Blue Ribbon Foundation, Limbs for Life, The Police Association, Police Legacy, Victoria Police Sports and Welfare Society and many individual police sporting clubs. We've also expanded our network of health partners which now includes Australian Nurses Midwives Federation (Vic branch), Monash Health, St Vincent's Hospitals, Western Health, Western Private Hospital, Geelong Private Hospital, Alfred Health, Mercy Health, Northern Health, St John of God Health Care, Goulburn Valley Health, Bendigo Health, Peninsula Health, Ballarat Health Services, Royal Victorian Eye and Ear Hospital, Austin Health, Knox Private Hospital, The Royal Dental Hospital of Melbourne, Southern Cross Care, The Royal Women's Hospital, Baptcare, AQA Victoria and the Royal Melbourne Hospital.

We are pleased to stand behind you, our Members as you contribute in many ways beyond your day to day roles proudly serving the Victorian Community.

The future looks bright for BankVic, with the exciting move to our new head office. We bid a fond farewell to our head office that has been our home for 25 years.

I would like to thank the staff and fellow directors for their contribution, in their tireless representation serving the best interests of our members.

P. John Mugavin
Chairman

Chief Executive Officer's report


Chief Executive Officer
Stephen Capello

A financial institution committed to our community

BankVic has no shareholders other than its members. This model gives us all a personal stake in our bank's future. One of the things that makes me proud to lead BankVic is that our vision and values make us unique. We're committed to an approach that furthers the financial, social, and environmental wellbeing of our members and their communities. This is why we say 'Members Matter'. Our dedication to building healthy communities affects our decisions about who we work with and where we invest our members' money, now and in the future. Our approach is also helping position BankVic for opportunities and challenges in the future.

How we're making a difference

We made great progress in 2015 by investing our members' capital directly back into our communities and delivering innovative products and services. The introduction of the BankVic Anywhere account, providing the ability to bank anywhere without ATM fees removed one of the most disliked fees in our banking sector. Our great lending products saw us fund $283 million in new loans and mortgages placing our members closer to reaching their dreams.

In 2015 BankVic was recognised as the first lender in Australia to pass on the February 2015 RBA rate cut to both new and existing members. We also listened to our members who said the Police Academy branch was indispensable and therefore we will be reopening the branch in Glen Waverley. We recognised our heritage and opened up our first branch in 17 years to serve our Police members at the new City West complex in Melbourne.

We are delighted to grow our connections with the Health community by partnering with the Australian Nursing and Midwifery Federation (Vic branch) which assists health workers to easily access BankVic products and services. We furthered our ongoing commitment to build healthy communities by extending our support to police community and sporting clubs enabling them to build their connections in the wider community and raise awareness of social and local issues.

We know you want simpler banking and to this end we introduced our new digital offering where members can apply for lending and deposit products online via your channel of choice.

Our approach is working

Our approach to banking is working and helping us grow despite a challenging economic environment. In 2015, assets reached $1.36 billion, an increase of 11.4% over 2014. Year-over-year, we continue to provide financial support to our members resulting in BankVic increasing our lending to $1.08 billion from $0.99 billion in 2014.

We also faced challenges along the way as borrowers benefited from historically low interest rates which affected our financial margin. Despite this, net earnings increased by 3.8% to $9.8 million in 2015 up from $9.4 million in 2014. With this result our capital adequacy, a representation of the bank's strength, remained strong at 21.2%. Our healthy financial performance provides a solid platform for our longevity to ensure we will be around to serve our members well over the long term.

Importantly, we're growing in membership and welcomed 4,000 new members in 2015, bringing our total membership to 98,616. We feel honoured that you continue to recommend us to your family and friends. Adding new members whilst much of the banking sector is contracting, is something we can all take pride in and we are looking forward to the celebration of reaching 100,000 members in the near future.

Acknowledging the people who matter

The continued success of BankVic is a tribute to the commitment and service excellence provided by our staff and I thank them for their efforts and their dedication throughout the year.

Finally, with today's endless banking choices we do not take for granted that in continuing to place your trust in us as your bank we must focus on what matters most to you and we are up to the challenge of working hard for you and earning your business.

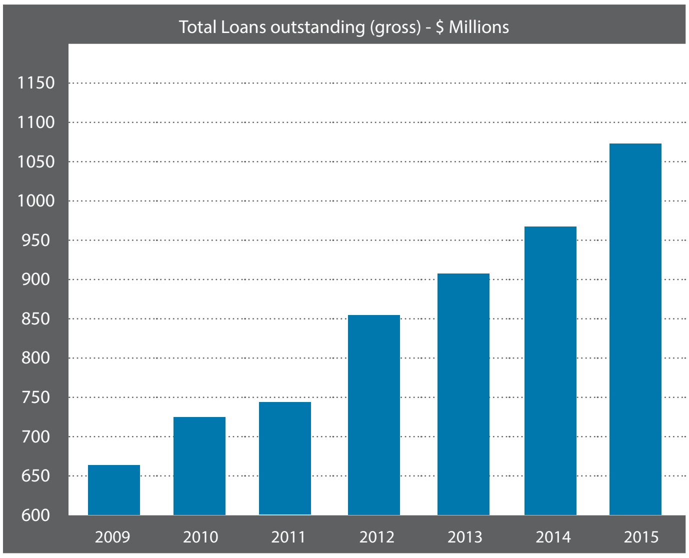
Stephen Capello
Chief Executive Officer

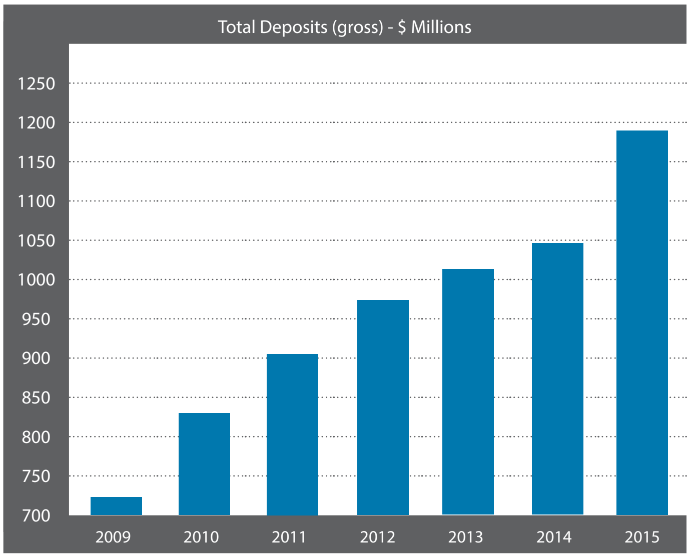
BankVic

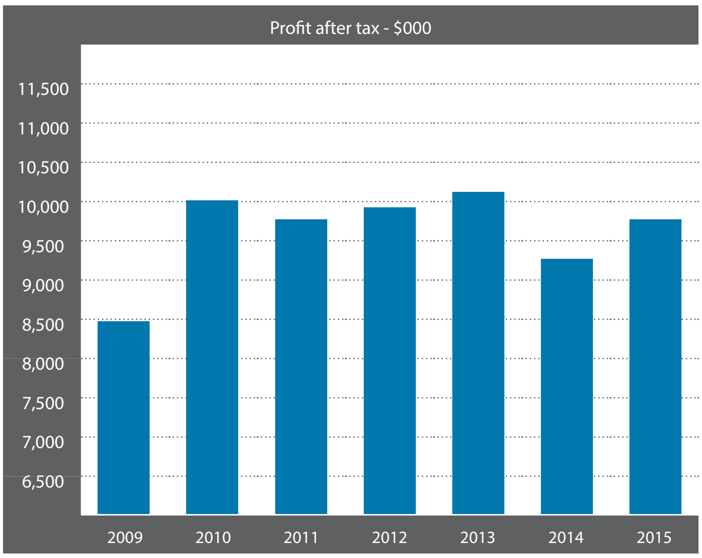
To the members of BankVic

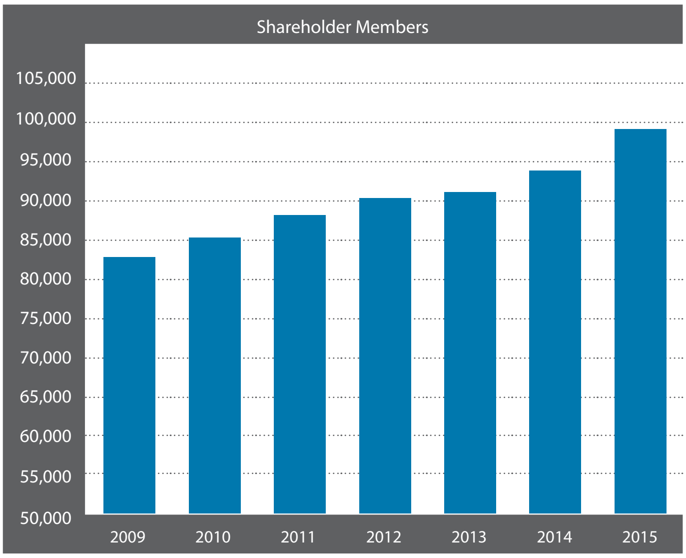
2014–15 Results Highlights

	2014–2015	2013–2014	Growth
Shareholder Members	**98,616**	96,257	2.5%
Deposits $'000	**1,195,715**	1,061,519	12.6%
Assets $'000	**1,364,102**	1,224,737	11.4%
Members' Funds $'000	**143,691**	133,896	7.3%
Profit After Tax $'000	**9,795**	9,440	3.8%
Loans Outstanding (Gross) $'000	**1,082,209**	993,036	9.0%









Corporate Governance Statement

Corporate Governance Structure

As an Australian 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), BankVic is a customer-owned or mutual bank.

As a company and an 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.

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 Prudential Standard CPS 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.

The Board regularly reviews our corporate governance structure for currency and is confident that our disciplined corporate governance structure will continue to ensure appropriate development, prioritisation and delivery of business strategies, as well as practising consistent, ethical and informed decision-making in pursuit of the organisation's objectives.

Board Performance

The Board acknowledges its accountability to 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.

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.

Corporate Governance Statement

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 currently has five permanent committees; Audit Committee, Risk Committee, Corporate Governance Committee, Remuneration Committee and Nominations Committee. Each Committee has its own principal responsibilities. It is noted that during the year the previous Audit and Risk Management Committee was replaced by two new committees being the Audit Committee and Risk Committee.

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 Adrian White on the Corporate Governance Committee. Steven Coulson replaced David Boell as Chair of the Audit Committee and John Capewell became Chair of the Risk Committee.

Audit Committee

Chairman:

S. J. Coulson (from 24 February 2015)

Members:

From 25 November 2014, S. J. Coulson, A. J. White and J. W. Capewell

The principal responsibilities of the Audit 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 members and regulators;
> determine the adequacy of the company's administrative, operating and internal controls; and
> review annually:
  i. internal audit and compliance; and
  ii. other policies (as required).

Risk Committee

Chairman:

J. W. Capewell (from 24 February 2015)

Members:

From 25 November 2014, J. W. Capewell, D. R. Boell, S. J. Coulson and W. G. Taylor

The principal responsibilities of the Risk Committee are to:

> maintain the risk appetite statement as defined by the Board;
> document the risk management strategy;
> overview of the major policies relevant to establishing the risk management framework; and
> summarise the monitoring and subsequently review all material key risk areas in the following categories: Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Strategic Risk, Compliance Risk, Reputational Risk and Other Risk (including Insurance)

Corporate Governance Committee

Chairman:

M. Luttick

Members:

M. Luttick, W. G. Taylor, P. J. Mugavin, A. J. White (to 23 September 2014) and D. R. Boell (from 25 November 2014).

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 as required under APRA's Prudential Standard CPS 520; 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 and approval.

Remuneration Committee

Chairman:

P. J. Mugavin (to 23 June 2015)

A. J. White (from 23 June 2015)

Members:

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

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 other senior managers who participate in decision-making that has the capacity to significantly affect the company's risk management system and financial standing; 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:

P. J. Mugavin

Members:

P. Crocker (Independent Member); J. Hutchins (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 for the year 2014/2015 was P. J. Mugavin, who was supported by two experienced advisors, independent of BankVic.

The independent advisors for 2014/15 were Peter Crocker, the retired chairman of mecu Limited (Bank Australia), with 26 years experience as a credit union director and Jonathon Hutchins, the then chairman of Victorian Teachers Limited and a credit union director since 2006.

1. Directors

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

Directors' report

Chairman
P. John Mugavin

Deputy Chairman
David R. Boell

Director
John W. Capewell

Director
Wayne G. Taylor

P. John Mugavin GradDipPubAdmin, FAICD, FAIM

Chairman. Experience – Director since 1998. Member Corporate Governance Committee. Chairman Remuneration Committee until 23 June 2015 and Chairman Nominations Committee.

David R. Boell BBus, AAICD

Deputy Chairman. Experience – Director since 2009. Chairman Audit and Risk Management Committee until 25 November 2014. Member Remuneration Committee, Risk Committee from 25 November 2014 and Corporate Governance Committee from 25 November 2014.

Wayne G. Taylor MEd, GradDipPubAdmin, DipTrain, DipCompanyDirectorship, FAICD, FAIM

Director. Experience – Director since 2009. Member Corporate Governance Committee and Member Risk Committee from 25 November 2014.

John W. Capewell GradDipAppFin, DipCompanyDirectorship, GradCertCommercialLaw, GAICD

Director. Experience – Director since 1999. Member Audit and Risk Management Committee until 25 November 2014. Member Audit Committee from 25 November 2014, Chairman Risk Committee from 24 February 2015.

Marianne Luttick GAICD, FAIM

Director. Experience – Director since 2011. Chairman Corporate Governance Committee and Member Remuneration Committee.

Adrian J. White DipTrain, GradCertAppliedManagement, GAICD

Director. Experience – Director since 2011. Member Corporate Governance Committee until 23 September 2014, Chairman Remuneration Committee from 23 June 2015. Member Audit Committee from 25 November 2014.

Steven J Coulson BCom, GradDipFraudInvestigation, DipCompanyDirectorship, CPA, CFE, GAICD, FAIM

Director, Experience – Director since 2013. Member Audit and Risk Management Committee until 25 November 2014. Chairman Audit Committee from 24 February 2015, Member Risk Committee from 25 November 2014.

Company Secretary

Mr. Graham Ashworth LLB (Hons), MBA, GradDipCSA, ACIS, ACSA until 23 June 2015

Karen Mathers BCom, GradDipInsolvency, ACA from 23 June 2015

Grant Earney BCom, FCA from 23 June 2015

Director
Steven Coulson

Director
Marianne Luttick

Director
Adrian J. White

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

POLICE FINANCIAL SERVICES LIMITED $1 WITHDRAWABLE SHARES

Mr. J. W. Capewell 10
Mr. W. G. Taylor 10
Ms. M. Luttick 10
Mr S. J. Coulson 10
Mr. P. J. Mugavin 10
Mr. D. R. Boell 10
Mr. A. J. White 10

Directors' Meetings

During the financial year, 11 meetings of Directors, 5 Corporate Governance Committee, 2 Audit and Risk Management Committee, 3 Audit Committee, 2 Risk Committee, 3 Remuneration Committee and 3 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		Risk Committee meetings		Audit Committee meetings		Corporate Governance Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Mr. J. W. Capewell	11	10	2	2	2	2	3	3	-	-	-	-	-	-
Mr. P. J. Mugavin	11	10	-	-	-	-	-	-	5	5	3	2	3	3
Mr. W. G. Taylor	11	9	-	-	2	2	-	-	5	4	-	-	-	-
Mr. D. R. Boell	11	10	2	2	2	2	-	-	3	2	3	3	-	-
Ms. M. Luttick	11	11	-	-	-	-	-	-	5	5	3	3	-	-
Mr. A. J. White	11	11	-	-	-	-	3	3	2	2	3	3	-	-
Mr. S. J. Coulson	11	11	2	2	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.

3. Results of Operations

Profit after tax of the Company for the financial year was $9,795k (2014: $9,440k).

Directors' report

4. Review of Operations

Growth

Over the past 12 months assets increased by 11.4%. Deposits increased by 12.6% reflecting continued member support. Loan demand continued in a historically low interest rate environment with gross loans increasing by 9.0%.

During the year membership grew 2.5% 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 $9.8 million, an increase of 3.8% over the previous year. Total income for the year was $42.1 million, an increase of 4.7% over the previous year. Operating expenses for the year were $28 million, an increase of 3.6% compared to the previous year.

Capital Adequacy

As a mutual financial institution, 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 decreased during the year from 21.9% in 2014 to 21.2% in 2015 of risk-weighted assets, significantly above the minimum level (12%) required to be maintained pursuant to the Australian Prudential Standards, as determined by APRA.

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 a new BankVic Anywhere account and Honeymoon discount variable home loans. Our members can now discuss home loan needs face to face with our Mobile Lenders as well as the convenience of applying online for all products from any computer or mobile device. Our new City West branch opened on Spencer Street, Melbourne in June 2015, directly across the road from Victoria Police's newest office.

5. Dividends

No dividends have been paid or declared since the end of the previous financial year (2014: Nil).

6. Share Issues

The only shares issued by the Company during the year were 42,120 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 16,410 $1 redeemable preference shares redeemed during the year.

7. State of Affairs

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

i. Operations of the Company;

ii. Results of those operations; or

iii. State of affairs of the Company in future financial years.

8. Directors' Benefits

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

9. Rounding Off

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

10. Events Subsequent to Balance Date

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

11. Likely Developments

In the coming year, BankVic will continue to launch services and products to further enable our members to secure their financial future. As a result, BankVic will reopen a new branch in Glen Waverley and continue to invest in digital technology offerings and a marketing automation system to meet more member needs.

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 2015.

Signed this 29th day of September 2015, in accordance with a resolution of the Board of Directors.

P. John Mugavin
Chairman

D. Boell

D. R. Boell
Deputy Chairman

Lead Auditor's Independence Declaration

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors Of Police Financial Services Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 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
29 September 2015

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	2015 $'000	2014 $'000
Interest income	4a	**62,883**	60,969
Interest expense	4b	**(29,198)**	(28,985)
Net interest income		**33,685**	31,984
Other income	4c	**8,390**	8,201
Total income		**42,075**	40,185
Impairment losses on loans and advances (net of recoveries)	4d	**(214)**	221
Salaries and related expenses		**(13,315)**	(12,178)
Card and payment expenses		**(6,016)**	(5,745)
Other expenses	4e	**(8,625)**	(9,054)
Profit before income tax expense		**13,905**	13,429
Income tax expense	5	**(4,110)**	(3,989)
Profit for the period		**9,795**	9,440
Other comprehensive income		**-**	-
Total comprehensive income		**9,795**	9,440
Total comprehensive income available to members		**9,795**	9,440

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

BankVic

As at 30 June 2015

Balance Sheet

	Note	2015 $'000	2014 $'000
Assets			
Cash and Cash Equivalents	6	**12,311**	20,411
Receivables Due from Other Financial Institutions	7	**264,554**	206,769
Accrued Receivables and Other Assets	8	**1,693**	1,929
Loans and Advances (Net)	9	**1,081,520**	992,502
Investments	10	**2,094**	1,515
Property, Plant and Equipment	11	**510**	253
Intangible Assets	12	**2**	39
Deferred Tax Asset	5	**1,418**	1,319
TOTAL ASSETS		**1,364,102**	1,224,737
Liabilities			
Deposits	13	**1,195,715**	1,061,519
Payables	14	**5,976**	6,017
Borrowings	15	**14,714**	19,699
Current Tax Liability		**1,004**	755
Provisions	16	**3,002**	2,851
TOTAL LIABILITIES		**1,220,411**	1,090,841
NET ASSETS		**143,691**	133,896
Members' Funds			
Reserves		**15,500**	15,452
Redeemed Capital Reserve		**346**	330
Retained Earnings		**127,845**	118,114
TOTAL MEMBERS' FUNDS		**143,691**	133,896

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 $'000	Total Member Funds $'000
Balance as at 1 July 2013	15,000	419	308	108,729	124,456
Increase in reserve during the year	-	33	-	(33)	-
Transfer from retained earnings	-	-	22	(22)	-
Profit or loss	-	-	-	9,440	9,440
Balance as at 30 June 2014	15,000	452	330	118,114	133,896
Balance as at 1 July 2014	15,000	452	330	118,114	133,896
Increase in reserve during the year	-	48	-	(48)	-
Transfer from retained earnings	-	-	16	(16)	-
Profit or loss	-	-	-	9,795	9,795
Balance as at 30 June 2015	**15,000**	**500**	**346**	**127,845**	**143,691**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Note	2015 $'000	2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**62,923**	61,226
Interest paid		**(29,550)**	(30,026)
Other income received		**8,262**	8,210
Cash payments to suppliers and employees		**(26,961)**	(25,979)
Net (increase) in loans and advances		**(94,196)**	(65,798)
Net increase in deposits		**134,171**	34,276
Net decrease/(increase) in receivables due from other financial institutions		**(58,364)**	14,481
Income tax paid		**(3,960)**	(4,392)
Net Increase/(decrease) in settlement accounts		**(34)**	2,840
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**(7,709)**	(5,162)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**-**	25
Payments for property, plant and equipment		**(417)**	(29)
Net Cash outflow used in Investing Activities		**(417)**	(4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in member shares		**26**	18
Net Cash inflow provided by Financing Activities		**26**	18
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**(8,100)**	(5,148)
Cash and cash equivalents at Beginning of Financial Year		**20,411**	25,559
Cash and cash equivalents at End of Financial Year	17(i)	**12,311**	20,411

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"), trading as 'BankVic', 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 products 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 were authorised for issue by the Directors on 29 September 2015.

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 presentation 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.

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the Company's financial statements. Certain comparative amounts have been re-presented to conform to the current year's presentation to enhance comparability.

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 less any impairment.

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 (Special Purpose Entity) 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.

The Impetus Funding Trust No. 1 was established in September 2012 for the purpose of creating a SPE 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.

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 the Statement of Comprehensive Income.

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 in through the Statement of Comprehensive Income.

Notes to and forming part of the Financial Statements

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

Obligations for contributions to superannuation are expensed as the related service is provided.

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

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

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

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

m. Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office 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.

Notes to and forming part of the Financial Statements

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 2014, 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 2018 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.

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 Balance Sheet.

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 dependent on the use of a specific asset or assets; and

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

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

Notes to and forming part of the Financial Statements

	2015 $'000	2014 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**53,648**	51,861
Commercial Loans	**12**	16
Other Financial Institutions	**8,690**	8,261
Securitised Loans	**533**	831
Total Interest Income	**62,883**	60,969
b. Interest Expense		
Member Deposits	**28,807**	28,403
Securitised Loans	**391**	582
Total Interest Expense	**29,198**	28,985
c. Other Income		
Fees and Commissions	**5,706**	5,641
Insurance Commissions	**2,412**	2,298
Other Income	**188**	182
Income from Property	**84**	70
Profit on Sale of Property, Plant and Equipment	**-**	10
Total Other Income	**8,390**	8,201
d. Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**72**	80
Increase/(decrease) in Provision for Impairment	**155**	(270)
Bad Debts Recovered	**(13)**	(31)
	214	(221)

	2015 $'000	2014 $'000
Note 4: Profit (continued)		
e. Other expenses		
Depreciation and amortisation	**197**	317
Amounts set aside to provide for employee entitlements	**159**	217
Administration costs	**2,410**	2,412
Supervision levy	**140**	130
Audit fees	**258**	286
Marketing costs	**993**	943
Information technology costs	**2,190**	2,556
Operating lease rentals	**923**	876
Occupancy costs	**499**	511
Directors' fees	**356**	355
Directors' severance benefits	**77**	67
Insurance – general	**113**	130
Other expenses	**310**	254
	8,625	9,054

Notes to and forming part of the Financial Statements

	2015 $'000	2014 $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**4,207**	3,919
Under/(Over) Provided in Prior Year	**2**	11
	4,209	3,930
Deferred tax expense		
Utilisation/(Recognition) of Temporary Differences	**(99)**	59
Total Income Tax Expense in Income Statement	**4,110**	3,989
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**13,905**	13,429
Income tax using the domestic corporation tax rate of 30% (2014: 30%)	**4,172**	4,029
Increase in income tax expense due to:		
- Non-deductible expenses	**4**	6
Decrease in income tax expense due to:		
- Non-assessable income	**(68)**	(57)
	4,108	3,978
Under/(Over) provided in prior year	**2**	11
Income tax expense on pre-tax profit	**4,110**	3,989

	Assets 2015 $'000	Assets 2014 $'000	Liabilities 2015 $'000	Liabilities 2014 $'000	Net 2015 $'000	Net 2014 $'000
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(207)**	(160)	–	–	**(207)**	**(160)**
Provision for Directors' Severance Benefits	**(148)**	(125)	–	–	**(148)**	**(125)**
Property, Plant and Equipment	**(237)**	(237)	–	–	**(237)**	**(237)**
Payables	**(74)**	(67)	–	–	**(74)**	**(67)**
Employee Entitlements	**(752)**	(730)	–	–	**(752)**	**(730)**
Net tax (assets)/liabilities	**(1,418)**	(1,319)	–	–	**(1,418)**	**(1,319)**

	2015 $'000	2014 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**650**	597
Deposits at Call	**11,661**	19,814
	12,311	20,411
Note 7: Receivables due from other Financial Institutions		
Negotiable Certificates of Deposit	**152,230**	113,093
Term Deposits	**112,324**	93,676
	264,554	206,769
a. Maturity Analysis		
Up to 3 months	**168,979**	121,818
From 3 months to 1 year	**52,975**	33,751
From 1 year to 5 years	**42,600**	51,200
Later than 5 years	**-**	-
	264,554	206,769
b. Market Value		
Negotiable certificates of Deposit/Term Deposits	**264,647**	206,772

In 2015, NCDs and Bank Term Deposits have an average maturity of 228 days (2014: 234 days) with effective interest rates of 2.23% to 3.76% (2014: 2.68% to 4.21%) p.a.

	2015 $'000	2014 $'000
Note 8: Accrued Receivables and Other Assets		
Interest receivable	**1,134**	1,173
Other	**559**	756
	1,693	1,929
Note 9: Loans and Advances		
Continuing credit facilities	**19,649**	19,345
Other loans and advances *	**1,054,361**	960,511
Directors and Director-related parties	**4**	34
Externally Securitised loans	**8,195**	13,146
	1,082,209	993,036
Provision for impairment	**(689)**	(534)
Net loans and advances	**1,081,520**	992,502

* As at 30 June 2015 $283m (2014: $117m) 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).

Notes to and forming part of the Financial Statements

	2015 $'000 Gross loans	2015 $'000 Provisions	2014 $'000 Gross loans	2014 $'000 Provisions
Note 9: Loans and Advances (continued)				
a. Maturity analysis				
Up to 3 months	**30,442**	**-**	29,186	-
From 3 months to 1 year	**34,062**	**(83)**	31,095	(67)
From 1 year to 5 years	**158,155**	**(104)**	144,025	(68)
Later than 5 years	**859,550**	**(502)**	788,730	(399)
	1,082,209	**(689)**	993,036	(534)
b. Loans by security				
Secured by mortgage	**1,023,270**	**(203)**	937,269	(203)
Secured other	**31,209**	**(144)**	29,286	(90)
Unsecured	**27,730**	**(342)**	26,481	(241)
	1,082,209	**(689)**	993,036	(534)
c. Loans by purpose				
Residential	**1,023,117**	**(203)**	937,055	(203)
Personal	**58,939**	**(486)**	55,767	(331)
Commercial	**153**	**-**	214	-
	1,082,209	**(689)**	993,036	(534)

	2015 $'000	2014 $'000
d. Concentration of risk		
i. As at 30 June 2015 there was no loan to any individual member, which represents 10% or more of capital.		
ii. The customer or industry concentration of loans which represent in aggregate 10% or more of total loans are set out below:		
Members of Victoria Police Force	**370,750**	341,586
iii. The geographic concentration of loans in the State of Victoria	**96%**	96%
e. Provision for Impairment of Loans and Advances		
Balance at beginning of the year	**534**	804
Transfer from/(to) profit and loss account	**227**	(190)
Bad debts written off	**(72)**	(80)
Balance at the end of the year	**689**	534

	2015 $'000	2014 $'000
The policy covering impaired loans and advances is set out in Note 3 (h).		
Non-accrual loans:		
Balances with provisions for impairment	**613**	389
Provision for impairment	**(689)**	(534)
Net non-accrual loans	**(76)**	(145)
Personal and unsecured loan balances – 90 days past due	**318**	226
i. Interest income on non-accrual loans	**1**	3
ii. Interest forgone on non-accrual loans	**34**	30
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	**997,433**	926,390
Past due but not specifically impaired	**84,163**	66,257
Collectively Impaired		
Carrying amount	**613**	389
Allowance for impairment	**(689)**	(534)
	(76)	(145)
Total	**1,081,520**	992,502

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

	2015 $'000	2014 $'000
Note 10: Investments		
Shares in Indue Ltd	2,094	1,515

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.

Notes to and forming part of the Financial Statements

	2015 $'000	2014 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	**2,224**	2,224
Less accumulated depreciation	**(2,200)**	(2,195)
	24	29
Plant and Office Equipment at cost	**5,218**	5,124
Less accumulated depreciation	**(5,055)**	(4,900)
	163	224
Capital Work in Progress	**323**	-
Total	**510**	253

	Leasehold Improvements $'000	Plant and Office Equipment $'000	Capital work in Progress $'000	Total $'000
2014				
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment				
Balance at 1 July 2013	34	404	-	438
Additions	-	29	-	29
Disposals	-	(15)	-	(15)
Depreciation expense	(5)	(194)	-	(199)
Carrying amount at 30 June 2014	29	224	-	253
2015				
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment				
Balance at 1 July 2014	29	224	-	253
Additions	-	94	323	417
Disposals	-	-	-	-
Depreciation expense	(5)	(155)	-	(160)
Carrying amount at 30 June 2015	24	163	323	510

	2015 $'000	2014 $'000
Note 12: Intangible Assets – Software		
At cost	**2,264**	2,264
Accumulated amortisation	**(2,262)**	(2,225)
Net carrying amount	**2**	39
Carrying amount at the beginning of the year	**39**	156
Additions	**-**	-
Amortisation expense	**(37)**	(117)
Carrying amount at the end of the year	**2**	39
Note 13: Deposits		
Call deposits	**942,944**	787,843
Term deposits	**251,808**	272,739
Redeemable preference shares	**963**	937
	1,195,715	1,061,519
a. Maturity Analysis		
Deposits are repayable over the following terms:		
On call	**940,991**	785,876
Up to 3 months	**93,392**	102,976
From 3 months to 6 months	**79,417**	93,370
From 6 months to 1 year	**48,668**	45,144
From 1 year to 5 years	**32,284**	33,216
No maturity	**963**	937
	1,195,715	1,061,519
b. Concentration of Risk		
i. As at 30 June 2015 there was no member who individually held deposits which represents 10% or more of total liabilities	-	-
ii. The customer or industry concentration of deposits which represented in aggregate 10% or more of total liabilities are:		
Members of Victoria Police Force	**166,047**	147,793
iii. The geographic concentration of deposits in the State of Victoria	**93%**	95%
Note 14: Payables		
Accrued deposit interest	**2,422**	2,775
Creditors and accrued expenses	**3,554**	3,242
	5,976	6,017

Notes to and forming part of the Financial Statements

	2015 $'000	2014 $'000
Note 15: Borrowings		
Securitised Funding	**8,195**	13,146
Settlement Accounts	**6,519**	6,553
	14,714	19,699
Maturity Analysis Borrowings will be repaid under current repayment conditions over the following periods:		
Up to 3 months	**6,519**	6,553
From 3 months to 1 year	**-**	-
From 1 year to 5 years	**-**	423
Later than 5 years	**8,195**	12,723
	14,714	19,699

	2015 $'000	2014 $'000
Note 16: Provisions		
Employee Entitlements	**2,508**	2,434
Directors' Severance Benefits*	**494**	417
	3,002	**2,851**

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. Current $1,252k (2014: $1,212k), non current $223k (2014: $356k)

> 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 3.00% per annum.

> Discounted using Commonwealth Government bond rates, which have maturity dates approximating the terms of the company obligations. Average rate of 2.29% p.a.

Annual Leave Current $1,033k (2014: $765k)

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

***Directors' Severance**

> Refer to Note 20(f) for details.

	2015 $'000	2014 $'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	**650**	597
Deposits at call	**11,661**	19,814
	12,311	20,411
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit after income tax	**9,795**	9,440
Adjustments for:		
Profit on sale of non-current assets	**-**	(10)
Bad debts written off	**72**	80
Amounts set aside to provide for impairment	**155**	(270)
Depreciation and Amortisation	**197**	317
Net cash provided by operating activities before changes in working capital and provision	**10,219**	9,557
Decrease/(Increase) in deferred tax assets	**(99)**	59
(Increase)/Decrease in interest receivable	**39**	256
Decrease/(Increase) in other assets	**197**	(10)
(Decrease)/Increase in interest payable	**(353)**	(1,040)
(Decrease)/Increase in creditors and accrued expenses	**311**	643
Increase/(Decrease) in provision for employee entitlements	**74**	138
Increase/(Decrease) in taxes payable	**249**	(461)
Net Increase/(Decrease) in directors severance benefits	**77**	(103)
Net (Increase) in loans and advances	**(94,196)**	(65,798)
Net increase in deposits	**134,171**	34,276
(Increase)/Decrease in receivables due from other financial institutions	**(58,364)**	14,481
Net Increase/(Decrease) in settlement accounts	**(34)**	2,840
Net cash flows from operating activities	**(7,709)**	(5,162)

Notes to and forming part of the Financial Statements

	2015 $'000	2014 $'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	**34,598**	26,860
Undrawn continuing line of credit commitments	**50,011**	48,276
Balance available for redraw under redraw facilities of term loans	**141,790**	124,217
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**692**	1,063
One year or later and no later than five years	**1,408**	509
iii. Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	**-**	-
iv. On 12 August 2015 BankVic signed an eight year operating lease agreement for new head office premises.		

	2015 $	2014 $
Note 19: Auditors' Remuneration		
Auditors of the Company – KPMG Australia		
Audit of financial report	**107,170**	99,636
Other regulatory audit services	**86,548**	77,762
Tax	**17,902**	17,903
	211,620	195,301

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 were as follows: P. J. Mugavin, J. W. Capewell, W. G. Taylor, D. R. Boell, M. Luttick, A. J. White and S. J. Coulson.

b. Executives/Managers

P. Kempster, Chief Executive Officer until 31 January 2015
S. Capello, Chief Executive Officer from 1 February 2015
S. Capello, Executive Manager Finance until 31 January 2015
G. Earney, Executive Manager Finance, from 20 April 2015, Company Secretary from 23 June 2015.
G. Ashworth, Executive Manager, Corporate Governance until 5 June 2015, Company Secretary until 23 June 2015
G. Miller, Executive Manager, Technology and Telecommunications
M. Dilges, Executive Manager, Marketing and Member Development
N. McCann, Executive Manager, Lending until 26 March 2015

Note 20: Key Management Personnel Disclosures continued

R. Boissezon, Executive Manager, Service and Sales
K. Mathers, Chief Risk Officer from 25 August 2014, Company Secretary from 23 June 2015

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 Salaries and Related expenses on the Statement of Comprehensive Income. Compensation relating to the Directors is disclosed in the same note. The key management personnel compensation is as follows:

	2015	**2014**
	$	**$**
Directors' Fees	**355,661**	354,742
Directors' Severance Benefits	**77,168**	67,106
Short-term employee benefits – salaries/fees/non-monetary benefits	**2,406,338**	2,139,908
Other long-term benefits	**63,366**	5,150
Post-employment benefits – superannuation contributions	**157,655**	122,421
	3,060,188	2,689,327

e. Loans to key management personnel

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

Balance owing as at 30 June	**1,879,667**	1,734,236
Summary of Transactions		
New Advances	**197,812**	1,695,234
Repayments made during the year	**128,114**	198,464
Interest Received on loans to key management personnel	**75,733**	17,519

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

D. R. Boell, M. Luttick, G. Miller, M. Dilges, S. Capello and N. McCann (until 26 March 2015), R. Boissezon (from 28 April 2015) and K. Mathers (from 25 August 2014).

f. Severance

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

The amount provided for Directors' severance benefit is estimated on an accruals basis even though a Director

Notes to and forming part of the Financial Statements

may not have served the required term of office. The provision at 30 June 2015 is $494,161 (2014: $416,994) 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 2014/15 year was comprised of directors Mr Adrian White (Committee Chairman), Ms Marianne Luttick, Mr John Mugavin and Mr David Boell.

The Remuneration Committee met on three 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. BankVic's Responsible Persons as defined by the APRA Prudential Standard CPS 520 Fit and Proper;

b. senior managers who participate in decision-making that has the capacity to significantly affect the company's risk management system and financial standing; 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 BankVic such as contractors or persons employed by a related service company).

Included in these categories are the Chief Executive Officer, other executive managers and others directly reporting to the Chief Executive Officer (six persons in total) as well as managers for the Finance, Compliance, Operations, Credit Risk and Control, Service and Sales, Credit Services and Branch Network and Credit Assessment functions (seven persons in total).

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 BankVic has taken into account when implementing remuneration measures were those identified in BankVic's Risk Management Framework, and included matters relating to liquidity, credit, market issues, interest rate volatility, contagion, organisations BankVic's membership may be associated with, key suppliers, general operations, information technology, staffing, strategic issues, fraud, occupational health and safety, financial planning, regulatory requirements, legal issues 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, the extent to which managers contribute to effective risk management at BankVic is an integral part of this performance assessment which in turn is used in setting remuneration. The results of internal and external audits are also taken into account. Effective risk management includes reducing the likelihood and consequence of risk events and of minimising the adverse impact of such events. 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. Therefore, no arrangements to modify or clawback such remuneration has been necessary to take account of longer-term performance.

In regard to staff subject to CPS 510, twelve received variable remuneration awards during the financial year, while none received a guaranteed bonus or sign-on award. However two senior managers departed the company and received termination payments. No deferred remuneration is either outstanding or was paid during the year.

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

		2015		2014
	No. of Employees	$ Total	No. of Employees	$ Total
i. Total value of variable remuneration awards				
Variable remuneration award – bonus	12	256,589	11	281,213
Guaranteed bonuses	-	-	-	-
Sign-on award	-	-	-	-
Termination payments	2	197,207	-	-
Total		**453,796**		**281,213**

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

			2015			2014
Fixed Remuneration	$ Unrestricted	$ Deferred	$ Total	$ Unrestricted	$ Deferred	$ Total
Cash Based	2,647,026	-	2,647,026	2,337,225	-	2,337,225
Shares	-	-	-	-	-	-
Other	256,821	-	256,821	191,396	-	191,396
	2,903,847	-	**2,903,847**	2,528,621	-	2,528,621
Variable Remuneration						
Cash Based	256,589	-	256,589	281,213	-	281,213
Shares	-	-	-	-	-	-
Other	-	-	-	-	-	-
	256,589	-	**256,589**	281,213	-	281,213
Total Value	**3,160,436**	-	**3,160,436**	2,809,834	-	2,809,834

Notes to and forming part of the Financial Statements

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: 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 2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	11,661	-	-	-	650	12,311
Receivables	-	-	-	-	1,693	1,693
Term Deposits	-	112,324	-	-	-	112,324
Certificates of Deposit	-	109,630	42,600	-	-	152,230
Loans and Advances	941,137	46,137	94,246	-	-	1,081,520
Equity Investments	-	-	-	-	2,094	2,094
	952,798	**268,091**	**136,846**	**-**	**4,437**	**1,362,172**
ii. Financial liabilities						
Payables	-	-	-	-	5,976	5,976
Deposits	942,944	219,524	32,284	-	963	1,195,715
Borrowings	14,714	-	-	-	-	14,714
	957,658	**219,524**	**32,284**	**-**	**6,939**	**1,216,405**

Note 22: Financial Instruments (continued)

Financial Instruments	Floating Interest Rate	Fixed interest rate maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total carrying amount as per balance sheet
30th June 2014	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	19,814	-	-	-	597	20,411
Receivables	-	-	-	-	1,929	1,929
Term Deposits	-	82,476	11,200	-	-	93,676
Certificates of Deposit	-	73,093	40,000	-	-	113,093
Loans and Advances	868,658	27,526	96,318	-	-	992,502
Equity Investments	-	-	-	-	1,515	1,515
	888,472	**183,095**	**147,518**	**-**	**4,041**	**1,223,126**
ii. Financial liabilities						
Payables	-	-	-	-	6,017	6,017
Deposits	787,972	239,394	33,216	-	937	1,061,519
Borrowings	19,276	-	423	-	-	19,699
	807,248	**239,394**	**33,639**	**-**	**6,954**	**1,087,235**

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. 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.

Notes to and forming part of the Financial Statements

Note 22: Financial Instruments (continued)

On Balance Sheet Financial Instruments	Total Carrying Amount as per Balance Sheet		Aggregate Net Fair Value	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
i. Financial assets				
Cash and liquid assets	**12,311**	20,411	**12,311**	20,411
Receivables	**1,693**	1,929	**1,693**	1,929
Term deposits	**112,324**	93,676	**112,348**	93,676
Certificates of deposit	**152,230**	113,093	**152,299**	113,096
Loans and advances	**1,081,520**	992,502	**1,082,457**	993,377
Equity Investments	**2,094**	1,515	**2,094**	1,515
Total financial assets	**1,362,172**	1,223,126	**1,363,202**	1,224,004
ii. Financial liabilities				
Payables	**5,976**	6,017	**5,976**	6,017
Deposits	**1,195,715**	1,061,519	**1,194,612**	1,060,785
Borrowings	**14,714**	19,699	**14,714**	19,702
Total financial liabilities	**1,216,405**	1,087,235	**1,215,302**	1,086,504

Loans and advances and deposits are disclosed at fair value using level 3 inputs.

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 Committees which are responsible for developing and monitoring risk management policies. The Audit and Risk Committees report 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 Risk Committee oversee how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk 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 Committees.

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 BankVic 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 in the police industry. This concentration is considered acceptable on the basis that the Company was formed to service these members. These industries are considered essential services and hence are stable industries and the employment concentration is not exclusive. Should members leave the industry, the loans continue and other employment opportunities are available to facilitate the repayment of the loans.

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.

Notes to and forming part of the Financial Statements

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 2015, the Company had 19.9% of total liabilities as liquid assets and High Quality Liquid Assets (HQLA) ratio 14.3%. 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 2015

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*	1,195,715	1,202,931	978,806	85,302	103,665	35,158	-
Trade and other payables	5,976	5,976	5,976	-	-	-	-
Borrowings	14,714	14,714	6,519	-	-	-	8,195
Total	**1,216,405**	**1,223,621**	**991,301**	**85,302**	**103,665**	**35,158**	**8,195**

30 June 2014

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*	1,061,519	1,068,141	825,942	101,328	104,605	36,266	-
Trade and other payables	6,017	6,017	6,017	-	-	-	-
Borrowings	19,699	19,696	6,553	-	-	420	12,723
Total	**1,087,235**	**1,093,854**	**838,512**	**101,328**	**104,605**	**36,686**	**12,723**

* 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.

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.

	2015 $'000	2014 $'000
1% increase	2,842	2,782
1% decrease	(2,872)	(2,772)

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

		2015		2014
	$'000	%	$'000	%
1% increase	(53)	(0.04%)	95	0.07%
1% decrease	91	0.07%	(67)	(0.05%)

Capital Management

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

BankVic 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 Australian Prudential Standards.

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

Regulatory capital is analysed into two tiers:

> Tier 1 capital includes general reserves, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Company had a net Tier 1 capital ratio of 21.2% of risk weighted assets as at 30 June 2015. (30 June 2014; 21.9%)

> 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 2015. (30 June 2014; 0.1%)

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.

Notes to and forming part of the Financial Statements

Note 24: Regulatory Capital Reconciliation

i. Tier 1 Capital	2015 $'000	2014 $'000
General Reserve	15,000	15,000
Redeemed Preference Share Capital Account	346	330
Retained Earnings	127,845	118,114
	143,191	133,444
Less Deduction's from Tier 1 Capital		
Deferred Tax Assets	(1,418)	(1,319)
Intangible Assets – Software	-	(39)
Equity Investment in Indue Ltd.	(2,094)	(1,515)
	(3,512)	(2,873)
Total Tier 1 Capital	**139,679**	**130,571**
ii. Tier 2 Capital		
Provision for General Reserve	500	452
Total Tier 2 Capital	**500**	**452**
Total Regulatory Capital	**140,179**	**131,023**
iii. Capital Ratios		
Tier 1 Capital	**21.2%**	**21.8%**
Total Regulatory Capital	21.2%	21.9%
Reconciliation of Regulatory Capital to Balance Sheet		
Total Members Funds	143,691	133,896
Less Deduction's from Tier 1 Capital	(3,512)	(2,873)
Total Regulatory Capital	**140,179**	**131,023**

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: 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 15 to 46 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 2015 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 29th day of September 2015

Signed in accordance with a resolution of the Directors.

P. John Mugavin

D. R. Boell

Independent Auditor's Report

KPMG

Independent auditor's report 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 (the Company), which comprises the balance sheet as at 30 June 2015, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 25 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 2015 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
29 September 2015

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.

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