PETER
BankVic member for 29 years

2017 ANNUAL REPORT

Where members matter

BankVic

CONTENTS

BOARD OF DIRECTORS AND MANAGEMENT

Chairman
Wayne G. Taylor MEd, MBA, GradDipPubAdmin, DipTrain, DipCompanyDirectorship, DipSocialMedia & ORM, FAICD, FIML

Deputy Chairman
Adrian J. White DipTrain, DipCompanyDirectorship, GradCertAppliedManagement, GAICD, FIML

Directors
David R. Boell BBus, AAICD
John W. Capewell GradDipAppFin, DipCompanyDirectorship, GradCertCommercialLaw, GAICD, A Fin until 25 July 2017
Steven J. Coulson BCom, GradDipFraudInvestigation, DipCompanyDirectorship, FCPA, CFE, GAICD, FIML
Marianne Luttick DipCompanyDirectorship, GAICD, FIML
Lucinda J. Nolan M.A., BA (Hons), Grad Dip PSM, MAICD from 24 November 2016

Company Secretary
Fiona Zafirakos MBA(Law Specialisation), GradDipACG, GradCertCommsLaw, CertGovPrac, FGIA, ICSA, MAICO until 12 May 2017
Anthony De Fazio BCom, CPA from 13 May 2017

Chief Executive Officer
Stephen Capello BCom, MBA (Distinction), FCPA

Chief Financial Officer
Anthony De Fazio BCom, CPA from 11 January 2017

Chief Risk Officer
Karen Mathers BCom, GradDipInsolvency, ACA until 8 July 2016
Michael McLennan B.Bus FCPA from 24 October 2016

Chief Technology Officer
Graham Miller CertBus(Acc), GradDip(A.I.S.), MACS PCP, MISACA

Chief People and Culture Officer
Mari Ruiz BArts (Sociology)

Chief Product and Marketing Officer
Melanie Dilges BAppSc, MBA, MMktg until 8 August 2016
Heather McGovern BA, Marketing from 24 October 2016

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

Chief Digital and Data Officer
Scott Wall B.Sc, MBA from 8 September 2016

Auditors
KPMG
Tower Two, 727 Collins Street, Melbourne, 3008

Solicitors
Wisewould Mahony
413 Collins Street, Melbourne 3000

Banker
Westpac Banking Corporation

Affiliations
Indue Ltd

CHAIRMAN'S REPORT

It has been a privilege serving the BankVic community in my first tenure as BankVic Chairman. A year that delivered a strong result with continued solid growth, strengthening our bank well for the future ahead.

As a member owned bank we're different from the major banks. We set ourselves apart by reinvesting our profits so that our members can benefit with improved products and services and our communities can be better supported.

This year we renewed our promise to members by delivering value through favorable interest rates, fee free banking and improved access to banking services. With market leading mortgage loans and competitive personal and car loans, we are proud of our member offerings and the ability to save our members hundreds and sometimes thousands of dollars.

We know that compelling rates and competitive pricing is only one part of our commitment to members. This year we continued to invest in providing accessible services through the expansion of our branch network. In June, we opened a new concept branch at the Royal Children's Hospital. Located centrally in Melbourne's major health precinct, the new branch provides members with access to a personalised service with specialised staff. Plans are now well in place to continue to evolve and enhance our branch network in 2017-18 with construction of a branch at Western Health in Sunshine under way.

We continued our support of the organisations and initiatives that assist our members in the protection and well-being service sectors, contributing $387,000 in donations and sponsorships. Since 2010 we have given $2.0m in financial support to the communities we serve. This is something we are very proud of and we are honored to partner with organisations such as Police Legacy, Blue Ribbon Foundation, Victoria Police, our hospital partners and foundations, and Ambulance Victoria, whose ongoing dedication and hard work supports our members.

A year ago we created a new set of values for our BankVic staff, enabling them to meet the challenges our business faces in the future and enabling them to be innovative, adaptable, and to put our members' needs at the forefront of their decision making. These values are now well embedded into our culture through our recruitment, training and staff leadership.

Through investing in our staff, our employee engagement remains at high levels and as a result BankVic was accredited as a 'Great Place to Work' for the first time. Being seen as an employer of choice in the market helps us attract the highest quality team members and the enthusiasm and passion of our engaged workforce translates into 'banking with heart' experiences for our members.

Our vision for the future is clear and we are making good progress on our 2020 strategy which is setting us up well to continue to be successful and sustainable for our next generation of members. We are embedding digital technology as a core value, entrenching a member centric approach based on trust and fairness via a deep understanding of our members needs with the goal of achieving a sustainable, valuable and long-term member relationship, whilst at the same time driving operational excellence, reflecting on the need to improve effectiveness and productivity.

Our bank was born out of a need, to provide banking services for police and their families. Our heritage is very important to us and is core to why we exist. Earlier this year we welcomed a number of our Founders, former CEOs, and Directors back to BankVic where we unveiled a plaque commemorating our founding directors and spoke of the 'baton' passing through the hands of those who put their passion and dedication into growing this business from the ground up. We are grateful to be reminded of where we came from and why we are here and are very proud to continue this great legacy for you our members.

Finally, I would like to thank former BankVic Chairman and esteemed colleague John Mugavin, for his leadership and excellent service to our organisation. Equally, I would like to acknowledge outgoing Director, John Capewell for his dedication and service to BankVic. On behalf of the BankVic community we are extremely grateful to both of you for your contribution over the last 18 years and for shaping BankVic into what it is today.

Wayne Taylor
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

THE YEAR IN REVIEW

Welcome to the 43rd Annual Report of BankVic, a year where your bank achieved its 33rd consecutive year of growth.

BankVic's profitability levels rose by 7.9% to $11.1m which will continue to be reinvested back into the organisation for future generations to create a bank that remains strong and sustainable. This profitability has helped BankVic develop new products and services and build a balance sheet that grew assets by 8.7% over the last year to $1.63b and a member base of 107,824.

In 2017, BankVic funded $449m in new lending, grew member savings by $103m and assisted our members realise their goals, with a 28% increase in Wealth Management clients.

BankVic has never been stronger with member equity now at $165m and capital adequacy at 20.2%, a sound indicator that we are well placed to respond to market pressures in an increasingly complex and competitive market place. Australia is one of the highest regulated countries in the world and BankVic meets and exceeds all of its prudential obligations.

Our Net Promoter Score remains at 70, highlighting the unequivocal high service standards we expect for our members, well ahead of the major banks.

MORE FOR MEMBERS

Our core purpose remains unchanged; it is and always will be to look after our member's financial wellbeing and to help them stay ahead at every life stage. With this in mind, we develop bespoke banking products and services tailored to meet the needs of our members.

This year our police members benefited from the launch of a new Qantas Frequent Flyer Visa Credit Card produced in partnership with The Police Association of Victoria. To partner with our founders is a representation of our commitment to listen, learn and exceed our members' needs and to remain their first choice when it comes to banking products.

In 2017, BankVic moved into an exciting new product space, partnering with both Northern and Eastern Health to deliver a Salary Packaging Card Product. The design of this product was a first for BankVic enabling more than 6,000 new members to maximize their salary.

Digital banking continues to grow as the favoured transaction channel for our members. On average BankVic members now make 62% of all transactions via our digital channels. Our focus is on improving our digital capabilities for members and this year we rolled out an improved BankVic Mobile App, providing members with a smarter everyday banking experience and the ability to self manage cards. Further digital improvements included the introduction of online lending contracts and a refreshed website with simplified navigation.

In an era of digital banking we recognise that some conversations need to be had with one of our specialised bankers and in recognition of this and the varying working hours of our members, we extended our contact centre hours to 7pm weekdays and now open Saturdays.

THE FUTURE

As custodians of BankVic, we are only too aware of our humble beginnings, and the very important role we have in ensuring that BankVic is strong and sustainable well into the future, for our members, their children and their children's children.

Our business is transforming, to meet the challenges of today and tomorrow, with continual business improvements, enriched competence and capability; setting us up well to deliver on the strong vision we have for the future. At the same time our business is now more adaptive and agile enabling us to seize opportunities and respond quickly in the face of constant digital disruption.

OUR PEOPLE

Finally, I would like to recognize our staff for their hard work, dedication, and commitment in what has been a thoroughly successful and an exceptional year.

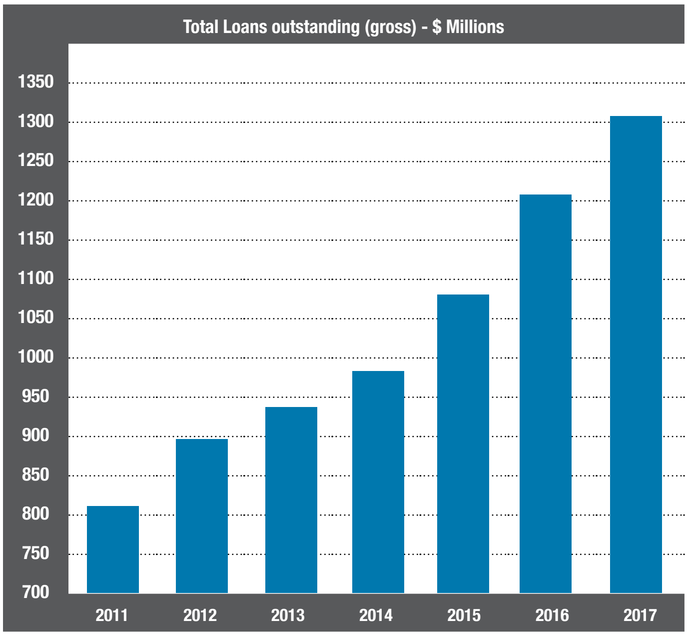
I would like thank our new Chairman Wayne Taylor and the Board of Directors and for their support and congratulate them on guiding BankVic to an outstanding year.

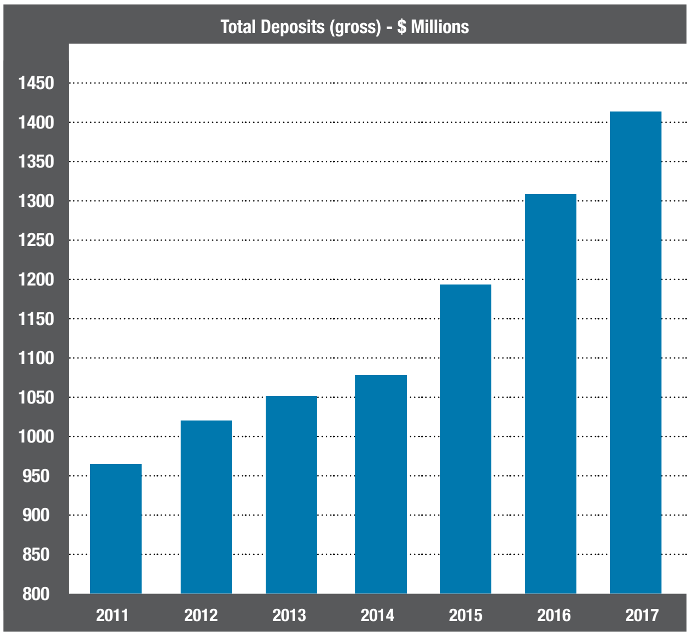
Lastly, we thank you our members for your support and advocacy.

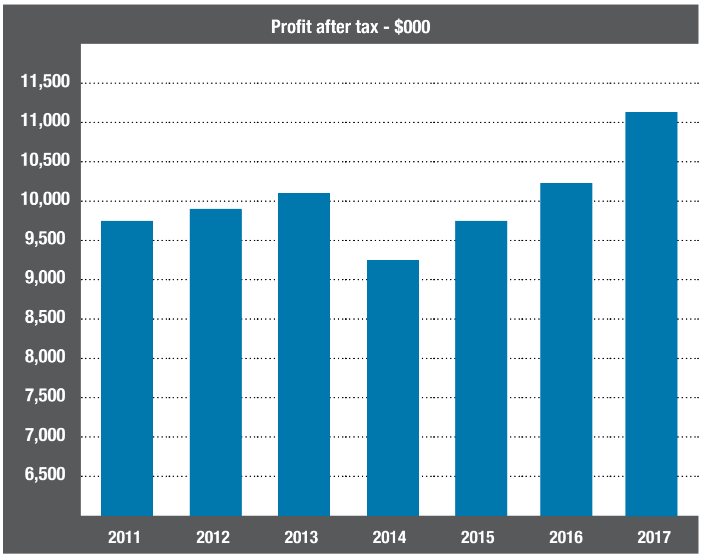
Stephen Capello
CEO

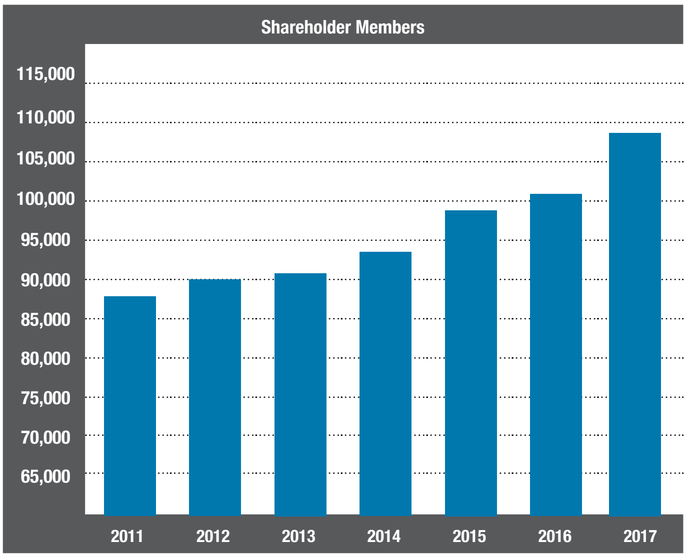
2016–17 RESULTS HIGHLIGHTS

	2016–2017	2015–2016	Growth
Shareholder Members	**107,824**	100,263	7.5%
Deposits $'000	**1,415,085**	1,312,602	7.8%
Assets $'000	**1,623,873**	1,502,851	8.7%
Members' Funds $'000	**164,995**	153,936	7.2%
Profit After Tax $'000	**11,059**	10,245	7.9%
Loans Outstanding (Gross) $'000	**1,305,829**	1,201,995	8.6%









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 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.

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

CORPORATE GOVERNANCE STATEMENT

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.

AUDIT COMMITTEE

Chairman:

S. J. Coulson

Members:

S. J. Coulson, A. J. White until 29 November 2016, J. W. Capewell until 25 July 2017, W. G. Taylor until 29 November 2016 and M. Luttick from 29 November 2016.

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 until 28 March 2017.

D.R. Boell from 28 March 2017.

Members:

J. W. Capewell until 25 July 2017, D. R. Boell, S. J. Coulson until 29 November 2016, A. J. White and L. J. Nolan from 29 November 2016.

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 (including IT), 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 until 24 November 2016, D. R. Boell, J.W Capewell until 29 November 2016 and L. J. Nolan from 29 November 2016.

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:

A. J. White

Members:

A. J. White, D. R. Boell until 29 November 2016, S. J. Coulson from 29 November 2016 and W. G. Taylor from 29 November 2016.

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 until 24 November 2016

Members:

P. Crocker (Independent Member); P. Mulraney (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 2016/2017 was P. J. Mugavin, who was supported by two experienced advisors, independent of BankVic.

The independent advisors for 2016/17 were Peter Crocker, the retired chairman of mecu Limited (Bank Australia), with 26 years experience as a credit union director and P. Mulraney, the current chairman of Defence Bank.

DIRECTORS' REPORT

Chairman
Wayne G. Taylor

Deputy Chairman
Adrian J. White

Director
David R. Boell

Director
John W. Capewell

1. DIRECTORS

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

WAYNE G. TAYLOR MED, MBA, GRADDIPPUBADMIN, DIPTRAIN, DIPCOMPANYDIRECTORSHIP, DIPSOCIALMEDIA & ORM, FAICD, FIML

Chairman from 29 November 2016. Experience – Director since 2009. Member Corporate Governance Committee, Audit Committee until 29 November 2016 and Member Remuneration Committee from 29 November 2016.

P. JOHN MUGAVIN GRADDIPPUBADMIN, FAICD, FIML until 24 November 2016

Chairman until 24 November 2016. Experience – Director since 1998. Member Corporate Governance Committee until 24 November 2016 and Chairman Nominations Committee until 24 November 2016.

ADRIAN J. WHITE DIPTRAIN, DIPCOMPANYDIRECTORSHIP, GRADCERTAPPLIEDMANAGEMENT, GAICD, FIML

Deputy Chairman from 29 November 2016. Experience – Director since 2011. Chairman Remuneration Committee. Member Audit Committee until 29 November 2016 and Risk Committee.

DAVID R. BOELL BBUS, AAICD

Deputy Chairman until 29 November 2016. Experience – Director since 2009. Member Remuneration Committee until 29 November 2016, Chairman Risk Committee from 28 March 2017 and Corporate Governance Committee.

JOHN W. CAPEWELL GRADDIPAPPFIN, DIPCOMPANYDIRECTORSHIP, GRADCERTCOMMERCIALLAW, GAICD, A FIN until 25 July 2017.

Director. Experience – Director since 1999. Member Audit Committee until 25 July 2017, Corporate Governance Committee until 29 November 2016 Chairman Risk Committee until 28 March 2017, member until 25 July 2017.

MARIANNE LUTTICK DIPCOMPANYDIRECTORSHIP, GAICD, FIML

Director. Experience – Director since 2011. Chairman Corporate Governance Committee and Member Audit Committee from 29 November 2017.

STEVEN J. COULSON BCOM, GRADDIPFRAUDINVESTIGATION, DIPCOMPANYDIRECTORSHIP, FCPA, CFE, GAICD, FIML

Director. Experience – Director since 2013. Chairman Audit Committee, Member Risk Committee until 29 November 2016, Remuneration Committee from 29 November 2016.

LUCINDA J. NOLAN BA(HONS), GRAD DIPPSM, MAICD from 24 November 2016.

Director. Experience - Director since 2016. Member Corporate Governance Committee from 29 November 2016, Member Risk Committee from 29 November 2016.

COMPANY SECRETARY

FIONA ZAFIRAKOS MBA(LAW SPECIALISATION), GRADDIPACG, GRADCERTCOMMSLAW, CERTGOVPRAC, FGIA, ICSA, MAICD UNTIL 12 MAY 2017

ANTHONY DE FAZIO BCOM, CPA from 13 May 2017

Director
Steven J. Coulson

Director
Marianne Luttick

Director
Lucinda J. Nolan

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
Ms. L. J. Nolan 10
Mr. D. R. Boell 10
Mr. A. J. White 10

DIRECTORS' MEETINGS

During the financial year, 10 meetings of Directors, 5 Corporate Governance Committee, 4 Audit Committee, 5 Risk Committee, 3 Remuneration Committee and 1 Nomination Committee meetings were held. The number of meetings attended by each director was as follows:

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

Director	Board meetings		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
Mr. J. W. Capewell	10	9	5	5	4	4	2	2	-	-	-	-
Mr. P. J. Mugavin	3	3	-	-	-	-	2	2	-	-	1	1
Ms. L. J. Nolan	7	7	3	2	-	-	3	3	-	-	-	-
Mr. W. G. Taylor	10	10	-	-	2	2	5	5	3	3	-	-
Mr. D. R. Boell	10	9	5	5	-	-	5	5	1	1	-	-
Ms. M. Luttick	10	10	-	-	2	2	5	5	-	-	-	-
Mr. A. J. White	10	10	5	5	2	2	-	-	3	3	-	-
Mr. S. J. Coulson	10	9	3	2	4	4	-	-	2	2	-	-

2. PRINCIPAL ACTIVITIES

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

DIRECTORS' REPORT

3. RESULTS OF OPERATIONS

Profit after tax of the Company for the financial year was $11.1 million (2016: $10.2 million).

4. REVIEW OF OPERATIONS

GROWTH

Over the past 12 months assets increased by 8.7%. Deposits increased by 7.8% reflecting continued member support. Loan demand continued in a historically low interest rate environment with gross loans increasing by 8.6%.

During the year membership grew 7.5% 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 $11.1 million, an increase of 7.9% over the previous year. Total income for the year was $47.9 million, an increase of 5.8% over the previous year. Operating expenses for the year were $32.0 million, an increase of 4.3% 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 20.5% in 2016 to 20.2% in 2017 of risk-weighted assets, significantly above the minimum level (12%) required to be maintained pursuant to the Prudential Standards, as determined by APRA.

PRODUCTS AND SERVICES

During the year we have continued to expand our service offering and value back to members.

Our new Royal Childrens Hospital branch was opened in 2017. Located centrally in Melbourne's major health precint it will continue to make it easier for our members to connect with our branch staff, mobile lenders and financial planners.

This year, in conjuction with the Police Association of Victoria, we launched a new Qantas Frequent Flyer Visa Credit Card for our police members. We also developed a Salary Packaging Card Product for over 6,000 health members.

Digital banking is now the preferred channel for our members and we continue to improve our capabilities. A new BankVic Mobile App was released as well as the introduction of online lending contracts and a refreshed website.

In recognition of the varying working hours of our members we extended our contact centre hours to 7pm weekdays and now open Saturdays.

5. DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year (2016: Nil).

6. SHARE ISSUES

The only shares issued by the Company during the year were 38,920 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 21,540 $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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

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 ensure our member's financial wellbeing and help them stay ahead at every life stage.

Our network will be further enhanced with a new branch located at Western Health in Sunshine.

We will continue to embed digital technology as a core value with the launch of the New Payments Platform (NPP). Additionally we will improve the member experience as we commence work on a new enterprise contact centre platform, member alerts, mobile payments and onboarding digitalisation.

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 2017.

Signed this 26th day of September 2017, in accordance with a resolution of the Board of Directors.

W. Taylor
Chairman

A. White
Deputy Chairman

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 of Police Financial Services Limited for the financial year ended 30 June 2017 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

Maria Trinci

Partner

Melbourne

26 September 2017

STATEMENT OF COMPREHENSIVE INCOME

	Note	2017 $'000	2016 $'000
Interest income	4a	**63,022**	62,659
Interest expense	4b	**(24,444)**	(26,590)
Net interest income		**38,578**	36,069
Other income	4c	**9,361**	9,236
Total income		**47,939**	45,305
Impairment losses on loans and advances (net of recoveries)	4d	**(155)**	(169)
Salaries and related expenses		**(14,853)**	(13,905)
Card and payment expenses		**(6,768)**	(6,447)
Other expenses	4e	**(10,265)**	(10,210)
Profit before income tax expense		**15,898**	14,574
Income tax expense	5	**(4,839)**	(4,329)
Profit for the period		**11,059**	10,245
Other comprehensive income		**-**	-
Total comprehensive income		**11,059**	10,245
Total comprehensive income available to members		**11,059**	10,245

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

BALANCE SHEET

	Note	2017 $'000	2016 $'000
Assets			
Cash and Cash Equivalents	6	**26,416**	28,675
Receivables Due from Other Financial Institutions	7	**292,611**	264,525
Accrued Receivables and Other Assets	8	**2,209**	2,215
Loans and Advances (Net)	9	**1,304,928**	1,201,225
Investments	10	**2,225**	2,225
Property, Plant and Equipment	11	**2,326**	2,268
Intangible Assets	12	**51**	-
Deferred Tax Asset	5	**2,107**	1,719
TOTAL ASSETS		**1,632,873**	1,502,852
Liabilities			
Deposits	13	**1,415,085**	1,312,602
Payables	14	**8,843**	7,282
Borrowings	15	**40,596**	25,596
Current Tax Liability		**749**	737
Provisions	16	**2,605**	2,699
TOTAL LIABILITIES		**1,467,878**	1,348,916
NET ASSETS		**164,995**	153,936
Members' Funds			
Reserves		**15,611**	15,556
Redeemed Capital Reserve		**396**	374
Retained Earnings		**148,988**	138,006
TOTAL MEMBERS' FUNDS		**164,995**	153,936

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	General Reserve	General Reserve for Credit Losses	Redeemed Preference Share Capital Account	Retained Earnings	Total Member Funds
	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2015	15,000	500	346	127,845	143,691
Increase in reserve during the year	-	56	-	(56)	-
Transfer from retained earnings	-	-	28	(28)	-
Profit or loss	-	-	-	10,245	10.245
Balance as at 30 June 2016	**15,000**	**556**	**374**	**138,006**	**153,936**
Balance as at 1 July 2016	**15,000**	**556**	**374**	**138,006**	**153,936**
Increase in reserve during the year	**-**	**55**	**-**	**(55)**	**-**
Transfer from retained earnings	**-**	**-**	**22**	**(22)**	**-**
Profit or loss	**-**	**-**	**-**	**11,059**	**11,059**
Balance as at 30 June 2017	**15,000**	**611**	**396**	**148,988**	**164,995**

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

STATEMENT OF CASH FLOWS

	Note	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**62,820**	62,407
Interest paid		**(24,405)**	(26,949)
Other income received		**9,586**	9,158
Cash payments to suppliers and employees		**(30,085)**	(29,173)
Net (increase) in loans and advances		**(110,836)**	(119,890)
Net increase in deposits		**102,465**	116,868
Net decrease/(increase) in receivables due from other financial institutions		**(28,086)**	28
Income tax paid		**(5,215)**	(4,897)
Net Increase/(decrease) in settlement accounts		**(5,567)**	10,882
Net Increase/(decrease) in short term borrowings		**27,531**	-
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**(1,792)**	18,434
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**34**	15
Payments for investments		**-**	(131)
Payments for property, plant and equipment		**(518)**	(1,973)
Net Cash outflow used in Investing Activities		**(484)**	(2,089)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in member shares		**17**	19
Net Cash inflow provided by Financing Activities		**17**	19
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**(2,259)**	16,364
Cash and cash equivalents at Beginning of Financial Year		**28,675**	12,311
Cash and cash equivalents at End of Financial Year	17(i)	**26,416**	28,675

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 *: Corporations Act 2001 (Cth)*

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 (Cth)*. 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 27 September 2017.

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 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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

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

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:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

- 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.

Securities sold subject to repurchase agreements are considered to be transferred assets that do not qualify for derecognition when substantially all the risks and rewards of ownership remain with the Group. An associated liability is recognised for the consideration received from the counterparty.

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 measured at amortised cost 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 a Special Purpose Entity (SPE) are recognised on the balance sheet with a corresponding increase in loans due to the SPE which are classified as borrowings. Participation in any new loan securitisation program/structure will need to be assessed at each balance date. Interest income relating to the SPE mortgage loans is recognised in the income statement using the effective interest method. Interest expense on the loan to the SPE is net of management fees. Interest expense includes fees for services to external parties providing servicing and liquidity arrangements and residual income distribution.

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 financial assets for reporting purposes. The terms of the transfer agreement is an equitable assignment to receive all the future income the mortgages generate but not a legal transfer of ownership.

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2017, but have not been applied in preparing this financial report. During the year the Company prepared its initial analysis of the transitional impact of the respective standards, including input from auditors and advisors. This analysis is ongoing as at the date of this report, and is expected to be completed prior to the respective implementation dates.

(i) AASB 9 Financial Instruments

Classification and measurement

AASB 9 will replace existing financial instrument categories with new categories of Fair Value through Profit or Loss (FVPL), Fair Value through Other Comprehensive Income (FVOCI), and Amortised Cost. Financial assets (other than equity and derivatives) will be assessed and categorised based on their contractual cash flow characteristics and the business model for managing the assets. Accounting for financial liabilities remains unchanged, except that gains or losses on liabilities designated at FVPL (if any), arising from the Company's own credit risk, will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Upon adoption the Company does not expect significant changes to the classification or measurement of most financial assets and financial liabilities.

Impairment of financial assets

AASB 9 introduces an expected credit loss impairment model that replaces the existing incurred loss model and applies to all financial assets, except for those which are FVPL. The new model may result in earlier recognition of some credit losses and may also result in more conservative provisioning levels depending on the economic cycle. Quantification of the financial impact upon transition is subject to final testing, validation and approval.

As the Company writes off loans when there is no realistic probability of recovery, the Company's policy on when financial assets are written off is not expected to significantly change on adoption of AASB 9.

Transition

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impairment, and classification and measurement requirements of AASB 9 will be applied retrospectively upon initial application of AASB 9 by adjusting the Company's statement of financial position at 1 July 2018. There is no requirement to restate comparative periods.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance in AASB 118 Revenue. The Company has performed an initial impact assessment on all revenue streams that fall within the scope of the standard, which indicates that transition impacts will be immaterial.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

(iii) AASB 16 Leases

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. AASB 16 requires enhanced disclosures for both lessees and lessors to improve information disclosed about an entity's exposure to leases. The Company has performed an initial assessment of the impact of applying the new standard and determined it will increase property, plant and equipment assets, and liabilities, but is not expected to materially impact net assets.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

t. Leases

i. Leased Assets

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

	2017 $'000	2016 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**54,085**	53,778
Commercial Loans	**15**	9
Other Financial Institutions	**8,834**	8,504
Securitised Loans	**88**	368
Total Interest Income	**63,022**	62,659
b. Interest Expense		
Member Deposits	**23,689**	26,104
Securitised Loans	**670**	285
Short Term Borrowings	**85**	201
Total Interest Expense	**24,444**	26,590
c. Other Income		
Fees and Commissions	**6,309**	5,737
Insurance Commissions	**2,972**	3,298
Other Income	**46**	161
Income from Property	**-**	49
Profit/(Loss) on Sale of Property, Plant and Equipment	**34**	(9)
Total Other Income	**9,361**	9,236
d. Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**37**	103
Increase/(decrease) in Provision for Impairment	**131**	81
Bad Debts Recovered	**(13)**	(15)
	155	169

	2017 $'000	2016 $'000
Note 4: Profit (continued)		
e. Other expenses		
Depreciation and amortisation	**409**	193
Amounts set aside to provide for employee entitlements	**398**	557
Administration costs	**2,510**	2,424
Motor vehicle running costs	**151**	145
Supervision levies	**169**	163
Professional services costs	**367**	348
Product and marketing costs	**870**	974
Information technology costs	**3,120**	2,653
Operating lease rentals	**1,030**	1,470
Occupancy costs	**444**	583
Directors' fees	**415**	394
Directors' severance benefits	**91**	80
Insurance – general	**126**	128
Other expenses	**165**	98
	10,265	10,210

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017 $'000	2016 $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**5,202**	4,636
Under/(Over) provided in prior year	**25**	(6)
	5,227	4,630
Deferred tax expense		
Utilisation/(Recognition) of Temporary Differences	**(388)**	(301)
Total Income Tax Expense in Income Statement	**4,839**	4,329
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**15,898**	14,574
Income tax using the domestic corporation tax rate of 30% (2016: 30%)	**4,769**	4,372
Increase in income tax expense due to:		
- Non-deductible expenses	**53**	4
Decrease in income tax expense due to:		
- Non-assessable income	**(8)**	(41)
	4,814	4,335
Under/(Over) provided in prior year	**25**	(6)
Income tax expense on pre-tax profit	**4,839**	4,329

	Assets 2017 $'000	Assets 2016 $'000	Liabilities 2017 $'000	Liabilities 2016 $'000	Net 2017 $'000	Net 2016 $'000
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(270)**	(231)	-	-	**(270)**	(231)
Provision for Directors' Severance Benefits	**(140)**	(172)	-	-	**(140)**	(172)
Property, Plant and Equipment	**(56)**	(71)	-	-	**(56)**	(71)
Payables	**(1,000)**	(608)	-	-	**(1,000)**	(608)
Employee Entitlements	**(641)**	(637)	-	-	**(641)**	(637)
Net tax (assets)/liabilities	**(2,107)**	(1,719)	-	-	**(2,107)**	(1,719)

	2017 $'000	2016 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**629**	807
Deposits at Call	**25,787**	27,868
	26,416	28,675
Note 7: Receivables due from other Financial Institutions		
Negotiable Certificates of Deposit *	**221,635**	188,305
Term Deposits	**70,976**	76,220
	292,611	264,525

*As at 30 June 2017 $38.8m of NCDs have been subject to repurchase agreement (2016: $10m) Refer to note 3 (b).

	2017 $'000	2016 $'000
a. Maturity Analysis		
Up to 3 months	**116,658**	102,728
From 3 months to 1 year	**53,303**	78,847
From 1 year to 5 years	**122,650**	82,950
Later than 5 years	**-**	-
	292,611	264,525
b. Market Value		
Negotiable certificates of Deposit/Term Deposits	**292,818**	265,065

In 2017, NCDs and Bank Term Deposits have an average maturity of 519 days (2016: 483 days) with effective interest rates of 1.74% to 3.68% (2016: 2.03% to 3.98%) p.a.

	2017 $'000	2016 $'000
Note 8: Accrued Receivables and Other Assets		
Interest receivable	**1,587**	1,386
Other	**622**	829
	2,209	2,215
Note 9: Loans and Advances		
Continuing credit facilities	**20,994**	19,969
Other loans and advances *	**1,284,131**	1,175,062
Directors and Director-related parties	**704**	-
Externally Securitised loans	**-**	6,964
	1,305,829	1,201,995
Provision for impairment	**(901)**	(770)
Net loans and advances	**1,304,928**	1,201,225

*As at 30 June 2017 $163m (2016: $212m) 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

	2017 $'000 Gross loans	2017 $'000 Provisions	2016 $'000 Gross loans	2016 $'000 Provisions
Note 9: Loans and Advances (continued)				
a. Maturity analysis				
Up to 3 months	**35,486**	**-**	34,046	(2)
From 3 months to 1 year	**39,378**	**(216)**	36,082	(121)
From 1 year to 5 years	**195,277**	**(81)**	176,454	(93)
Later than 5 years	**1,035,688**	**(604)**	955,413	(554)
	1,305,829	**(901)**	1,201,995	(770)
b. Loans by security				
Secured by mortgage*	**1,248,424**	**(214)**	1,143,610	(214)
Secured other	**28,417**	**(139)**	29,646	(121)
Unsecured	**28,988**	**(548)**	28,738	(436)
	1,305,829	**(901)**	1,201,995	(770)
c. Loans by purpose				
Residential	**1,248,184**	**(214)**	1,143,487	(214)
Personal	**57,405**	**(687)**	58,385	(557)
Commercial	**240**	**-**	123	-
	1,305,829	**(901)**	1,201,995	(770)

* The loan to value of the collateral for loans secured by mortgage as at 30 June 2017 was 56.5% (2016: 56.6%)

	2017 $'000	2016 $'000
d. Concentration of risk		
i. As at 30 June 2017 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	**438,665**	412,532
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	**770**	689
Transfer from/(to) profit and loss account	**131**	81
Balance at the end of the year	**901**	770

	2017 $'000	2016 $'000
e. Provision for Impairment of Loans and Advances (continued)		
The policy covering impaired loans and advances is set out in Note 3 (h).		
Non-accrual loans:		
Balances with provisions for impairment	**832**	805
Provision for impairment	**(901)**	(770)
Net non-accrual loans	**(69)**	35
Personal and unsecured loan balances – 90 days past due	**525**	305
i. Interest forgone on non-accrual loans	**45**	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	**1,180,348**	1,097,833
Past due but not specifically impaired		
0 - 30 Days	**119,412**	97,488
30 - 60 Days	**1,715**	1,455
60 - 90 Days	**960**	993
90+ Days	**2,562**	3,421
	124,649	103,357
Collectively Impaired		
Carrying amount	**832**	805
Allowance for impairment	**(901)**	(770)
	(69)	35
Total	**1,304,928**	1,201,225

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

Note 10: Investments

Shares in Indue Ltd	**2,205**	2,205
Shares in Shared Services Partners Pty Ltd	**20**	20
	2,225	2,225

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 the shares equates to the cost paid by the Company. The Company notes that due to the restrictions placed on the disposal of the shares, the cost approximates the fair value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Shares in Shared Services Partners Pty Ltd: The Company is a founding member and shareholder of SSP Pty Ltd, a company established to conduct supplier negotiation services. These shares are not quoted on the stock exchange and therefore do not have a recognised market value. The carrying value of the shares equates to the cost paid by the Company. The Company notes that due to the restrictions placed on the disposal of the shares, the cost approximates the fair value.

	2017 $'000	2016 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	**1,840**	1,840
Less accumulated depreciation	**(546)**	(372)
	1,294	1,468
Plant and Office Equipment at cost	**4,084**	4,087
Less accumulated depreciation	**(3,429)**	(3,341)
	655	746
Capital Work in Progress	**377**	54
Total	**2,326**	2,268

	Leasehold Improvements $'000	Plant and Office Equipment $'000	Capital Work in Progress $'000	Total $'000
2016				
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment				
Balance at 1 July 2015	24	163	323	510
Additions	1,551	422	-	1,973
Transfers from Capital Work in Progress	-	269	(269)	-
Disposals	(24)	-	-	(24)
Depreciation expense	(83)	(108)	-	(191)
Carrying amount at 30 June 2016	1,468	746	54	2,268
2017				
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment				
Balance at 1 July 2016	**1,468**	**746**	**54**	**2,268**
Additions	**-**	**-**	**450**	**450**
Transfers from Capital Work in Progress	**-**	**127**	**(127)**	**-**
Disposals	**-**	**-**	**-**	**-**
Depreciation expense	**(174)**	**(218)**	**-**	**(392)**
Carrying amount at 30 June 2017	**1,294**	**655**	**377**	**2,326**

	2017 $'000	2016 $'000
Note 12: Intangible Assets – Software		
At cost	**2,331**	2,264
Accumulated amortisation	**(2,280)**	(2,264)
Net carrying amount	**51**	-
Carrying amount at the beginning of the year	**-**	2
Additions	**68**	-
Amortisation expense	**(17)**	(2)
Carrying amount at the end of the year	**51**	-
Note 13: Deposits		
Call deposits	**1,122,872**	1,067,411
Term and at notice deposits	**291,214**	244,209
Redeemable preference shares	**999**	982
	1,415,085	1,312,602
a. Maturity Analysis Deposits are repayable over the following terms:		
On call	**1,122,872**	1,067,411
Up to 3 months	**127,087**	99,307
From 3 months to 6 months	**68,225**	60,307
From 6 months to 1 year	**46,788**	56,121
From 1 year to 5 years	**49,114**	28,474
No maturity	**999**	982
	1,415,085	1,312,602
b. Concentration of Risk i. As at 30 June 2017 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	**201,527**	186,159
iii. The geographic concentration of deposits in the State of Victoria	**91%**	93%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017 $'000	2016 $'000
Note 14: Payables		
Accrued deposit interest	**2,102**	2,063
Creditors and accrued expenses	**6,741**	5,219
	8,843	7,282
Note 15: Borrowings		
Securitised Funding	**-**	6,964
Settlement Accounts	**4,257**	9,824
Repurchase Agreements	**34,465**	8,808
Other loans	**1,874**	-
	40,596	25,596
Maturity Analysis		
Borrowings will be repaid under current repayment conditions over the following periods:		
Up to 3 months	**29,775**	9,824
From 3 months to 1 year	**8,947**	8,808
From 1 year to 5 years	**1,874**	-
Later than 5 years	**-**	6,964
	40,596	25,596
Note 16: Provisions		
Employee Entitlements	**2,138**	2,125
Directors' Severance Benefits*	**467**	574
	2,605	2,699

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 $0.99m (2016: $0.94m), non current $0.30m (2016: $0.32m)
- 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 1.94% p.a.

Annual Leave Current $0.84m (2016: $0.86m)

- 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.

	2017 $'000	2016 $'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	**629**	807
Deposits at call	**25,787**	27,868
	26,416	28,675
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit after income tax	**11,059**	10,245
Adjustments for:		
(Profit)/Loss on sale of non-current assets	**(34)**	9
Bad debts written off	**37**	103
Amounts set aside to provide for impairment	**131**	81
Depreciation and Amortisation	**409**	193
Net cash provided by operating activities before changes in working capital and provision	**11,602**	10,631
Decrease/(Increase) in deferred tax assets	**(389)**	(301)
(Increase)/Decrease in interest receivable	**(201)**	(252)
Decrease/(Increase) in other assets	**208**	(270)
(Decrease)/Increase in interest payable	**39**	(359)
(Decrease)/Increase in creditors and accrued expenses	**1,524**	1,665
Increase/(Decrease) in provision for employee entitlements	**13**	(382)
Increase/(Decrease) in taxes payable	**12**	(267)
Net Increase/(Decrease) in directors severance benefits	**(107)**	80
Net (Increase) in loans and advances	**(110,836)**	(119,890)
Net increase in deposits	**102,465**	116,868
(Increase)/Decrease in receivables due from other financial institutions and investments	**(28,086)**	(103)
Net Increase/(Decrease) in settlement accounts	**(5,567)**	10,882
Net Increase/(Decrease) in short term borrowings	**27,531**	-
Net cash flows from operating activities	**(1,792)**	18,302

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2017 $'000	2016 $'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	**35,451**	32,696
Undrawn continuing line of credit commitments	**56,760**	53,530
Balance available for redraw under redraw facilities of term loans	**186,498**	161,057
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**1,581**	1,371
One year or later and no later than five years	**6,003**	5,896
iii. Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	**-**	-

	2017 $	2016 $
Note 19: Auditors' Remuneration		
Auditors of the Company – KPMG Australia		
Audit of financial report	**109,135**	108,789
Other regulatory audit services	**87,286**	87,316
Taxation services	**26,686**	18,261
	223,107	214,366

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 until 24 November 2016, J. W. Capewell until 25 July 2017, W. G. Taylor, D. R. Boell, M. Luttick, A. J. White, S. J. Coulson and L. J. Nolan from 24 November 2016.

b. Executives/Managers

S. Capello, Chief Executive Officer

G. Miller, Chief Technology Officer

M. Dilges, Chief Product and Marketing Officer until 8 August 2016

F. Zafirakos, Company Secretary until 12 May 2017

M. Ruiz, Chief People and Culture Officer

Note 20: Key Management Personnel Disclosures continued

R. Boissezon, Chief Sales Officer
K. Mathers, Chief Risk Officer until 8 July 2016
S. Wall, Chief Digital and Data Officer from 8 September 2016
M. McLennan, Chief Risk Officer from 24 October 2016
H. McGovern, Chief Product and Marketing officer from 24 October 2016
A. De Fazio, Chief Financial Officer from 11 January 2017, Company Secretary from 13 May 2017

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:

	2017 $	2016 $
Directors' Fees	**415,295**	394,372
Directors' Severance Benefits	**91,446**	80,137
Short-term employee benefits – salaries/fees/non-monetary benefits	**2,432,982**	2,426,250
Other long-term benefits	**33,726**	15,768
Post-employment benefits – superannuation contributions	**176,108**	150,384
	3,149,557	3,066,911

e. Loans to key management personnel

The following loan facilities were outstanding by key management personnel or related parties who are related to key management personnel at normal member rates during the year:

Balance owing as at 30 June	**5,358,741**	2,317,087
Summary of Transactions		
New Advances	**3,621,416**	515,804
Repayments made during the year	**728,835**	154,586
Interest Received on loans to key management personnel	**149,073**	76,202

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

W.G. Taylor, M. Luttick, G. Miller, D.R Boell, L.J Nolan, S. Capello, R. Boissezon, M. Ruiz, S. Wall, A. De Fazio.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The amount provided for Directors' severance benefit is estimated on an accruals basis even though a Director may not have served the required term of office. The provision at 30 June 2017 is $467,074 (2016: $574,298) 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 2016/17 year was comprised of directors Mr Adrian White (Committee Chairman), Mr Wayne Taylor from 19 August 2016 and Mr David Boell until 19 August 2016 and Mr Steven Coulson from 28 February 2017.

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 (seven persons in total) as well as Heads of Finance, Operations, Credit Risk and Control, Service and Sales, Credit Services and Branch Network, Credit Assessment and Regional Branch Manager 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 one senior manager departed the company and received termination payment. 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:

	2017		**2016**	
	No. of Employees	**$ Total**	**No. of Employees**	**$ Total**
i. Total value of variable remuneration awards				
Variable remuneration award – bonus	**12**	**280,408**	12	306,084
Guaranteed bonuses	**-**	**-**	-	-
Sign-on award	**-**	**-**	-	-
Termination payments	**1**	**65,169**	2	198,526
Total	**13**	**345,577**	14	504,610

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

	2017			**2016**		
Fixed Remuneration	**$ Unrestricted**	**$ Deferred**	**$ Total**	**$ Unrestricted**	**$ Deferred**	**$ Total**
Cash Based	**2,865,180**	-	**2,865,180**	2,856,057	-	2,856,057
Shares	**-**	-	**-**	-	-	-
Other	**249,069**	-	**249,069**	232,370	-	232,370
	3,114,249	-	**3,114,249**	3,088,427	-	3,088,427
Variable Remuneration						
Cash Based	**280,408**	-	**280,408**	306,084	-	306,084
Shares	**-**	-	**-**	-	-	-
Other	**-**	-	**-**	-	-	-
	280,408	-	**280,408**	306,084		306,084
Total Value	**3,394,657**	-	**3,394,657**	3,394,511	-	3,394,511

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 2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	25,787	-	-	-	629	26,416
Receivables	-	-	-	-	2,209	2,209
Term Deposits	-	70,976	-	-	-	70,976
Certificates of Deposit	-	98,985	122,650	-	-	221,635
Loans and Advances	1,158,508	31,653	114,767	-	-	1,304,928
Equity Investments	-	-	-	-	2,225	2,225
	1,184,295	201,614	237,417	-	5,063	1,628,389
ii. Financial liabilities						
Payables	-	-	-	-	8,843	8,843
Deposits	1,124,353	240,619	49,114	-	999	1,415,085
Borrowings	4,257	34,465	-	-	1,874	40,596
	1,128,610	275,084	49,114	-	11,716	1,464,524

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 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	27,868	-	-	-	807	28,675
Receivables	-	-	-	-	2,215	2,215
Term Deposits	-	76,220	-	-	-	76,220
Certificates of Deposit	-	105,355	82,950	-	-	188,305
Loans and Advances	1,071,738	28,464	101,023	-	-	1,201,225
Equity Investments	-	-	-	-	2,225	2,225
	1,099,606	210,039	183,973	-	5,247	1,498,865
ii. Financial liabilities						
Payables	-	-	-	-	7,281	7,281
Deposits	1,069,112	214,034	28,474	-	982	1,312,602
Borrowings	16,788	8,808	-	-	-	25,596
	1,085,900	222,842	28,474	-	8,263	1,345,479

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	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
i. Financial assets				
Cash and liquid assets	**26,416**	28,675	**26,416**	28,675
Receivables	**2,209**	2,215	**2,209**	2,215
Term deposits	**70,976**	76,220	**71,006**	76,285
Certificates of deposit	**221,635**	188,305	**221,812**	188,780
Loans and advances	**1,304,928**	1,201,225	**1,305,659**	1,202,045
Equity Investments	**2,225**	2,225	**2,225**	2,225
Total financial assets	**1,628,389**	1,498,865	**1,629,327**	1,500,225
ii. Financial liabilities				
Payables	**8,843**	7,281	**8,843**	7,281
Deposits	**1,415,085**	1,312,602	**1,415,188**	1,312,129
Borrowings	**40,596**	25,596	**40,596**	25,596
Total financial liabilities	**1,464,524**	1,345,479	**1,464,627**	1,345,006

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, SPP Pty Ltd and other Australian ADIs.

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

LIQUIDITY RISK

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

The Company is required to maintain at least 9% of total liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Board policy is to apply a minimum level of 11% of liabilities as liquid assets to maintain adequate funds for meeting member withdrawal requests. As at 30 June 2017, the Company had 16.9% 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 2017

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*	**1,415,085**	**1,418,917**	**1,161,616**	**114,947**	**93,900**	**48,454**	**-**
Trade and other payables	**8,843**	**8,843**	**8,843**	**-**	**-**	**-**	**-**
Borrowings	**40,596**	**40,596**	**12,667**	**26,055**	**-**	**1,874**	**-**
Total	**1,464,524**	**1,468,356**	**1,183,126**	**141,002**	**93,900**	**50,328**	**-**

30 June 2016

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*	1,312,602	1,318,238	1,108,521	84,540	95,112	30,065	-
Trade and other payables	7,281	7,281	7,281	-	-	-	-
Borrowings	25,596	25,596	9,824	-	8,808	-	6,964
Total	1,345,479	1,351,115	1,125,626	84,540	103,920	30,065	6,964

* 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. The impact on equity is not material.

	2017 $'000	2016 $'000
1% increase	**3,636**	3,077
1% decrease	**(3,562)**	(3,102)

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 Prudential Standards.

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

Regulatory capital is analysed into two tiers:

- Tier 1 capital includes general reserves, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Company had a net Tier 1 capital ratio of 20.1% of risk weighted assets as at 30 June 2017. (30 June 2016: 20.5%)
- 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 2017. (30 June 2016: 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	2017 $'000	2016 $'000
General Reserve	**15,000**	15,000
Redeemed Preference Share Capital Account	**396**	374
Retained Earnings	**148,988**	138,006
	164,384	153,380
Less Deduction's from Tier 1 Capital		
Deferred Tax Assets	**(2,108)**	(1,719)
Intangible Assets – Software	**(51)**	-
Equity Investment in Indue Ltd.	**(2,205)**	(2,205)
Equity Investment in SPP Pty Ltd	**(20)**	(20)
	(4,384)	(3,944)
Total Tier 1 Capital	**160,000**	149,436
ii. Tier 2 Capital		
Provision for General Reserve	**611**	556
Total Tier 2 Capital	**611**	556
Total Regulatory Capital	**160,611**	149,992
iii. Capital Ratios		
Tier 1 Capital	**20.1%**	20.5%
Total Regulatory Capital	**20.2%**	20.5%
Reconciliation of Regulatory Capital to Balance Sheet		
Total Members Funds	**164,995**	153,936
Less Deduction's from Tier 1 Capital	**(4,384)**	(3,944)
Total Regulatory Capital	**160,611**	149,992

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 2017 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 26th day of September 2017

Signed in accordance with a resolution of the Directors.

W. Taylor
Chairman

A. White
Deputy Chairman

Independent Auditor's Report

To the members of Police Financial Services Limited

Opinion

We have audited the ***Financial Report*** of Police Financial Services Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Balance Sheet as at 30 June 2017
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Police Financial Services Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Maria Trinci

KPMG

Maria Trinci

Partner

Melbourne

26 September 2017

Police Financial Services Limited ABN 33 087 651 661 AFSL 240293 Australian Credit Licence 240293
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