BankVic

ANNUAL REPORT 2018

When it comes to your banking and financial security, it's nice to know you've got someone who gets and understands you.

Wayne Gatt
Secretary, The Police Association of Victoria

members matter

BankVic was founded as Police Association Credit Co-op in 1974 for Police members.

Today, BankVic represents Victorian police, health, emergency and public service employees, as well as their families and friends.

In the same way our members put people first, at BankVic we are committed to putting members first.

We want our members to feel supported as much as they support the broader community. Their future is our future.

And we couldn't be more proud to be part of it.

1974
Our story begins with the opening of our first office – a storeroom in the Police Association building

1979
Country Fire Association (CFA) members able to join

1980
First branch opens at the Police Academy, Glen Waverley

1982
Over the phone banking launches

1987
Police Credit Visa Card introduced

1992
State and federal public service staff eligible to join

1995
World Trade Centre branch opens

1998
Monash Medical Centre branch opens

2001
Internet banki
launches

200
e-Stater
introduc

9

ments
ced

ng

2010

Mobile banking launches

2013

Name changed from Police Credit Co-op to BankVic

2014

Awarded Canstar customer owned Bank of the Year

2015

New head office in Spring St opens

2016

100,000 members!

2017

2 new branches opened - Royal Children's Hospital and Sunshine Hospital

2018

Real-time payments and First Home Buyer Package introduced

2017/18 Highlights

110,986
Total members
Effective 30 June 2018

'One of the best'
First Home Buyer Package

$2.3 million
Community donations and sponsorships
Since 2010

Salary Packaging Card

Sunshine Hospital
Branch open in the west

95%
Member satisfaction

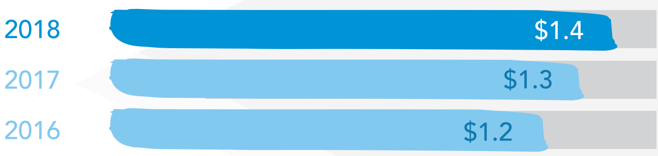
$1.8 billion
In assets

Touch & Face ID
Enhanced mobile app security

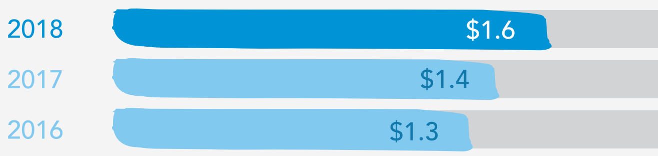
Faster payments
New Payment Platform with PayID launched

18
Bank fees removed

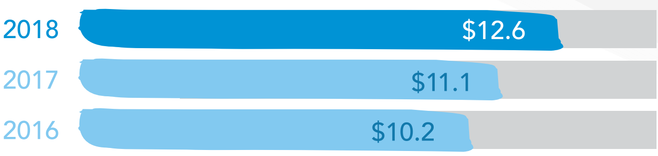
Loans ($'billion)



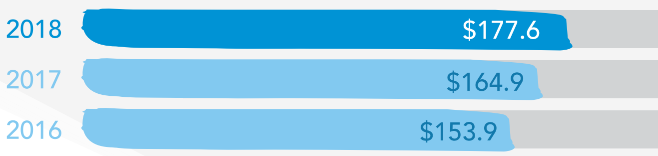
Deposits ($'billion)



Profit after tax ($'million)



Members funds ($'million)



Contents

Chair Message

BankVic began in 1974 as the Police Association Credit Co-op to help police officers get a better deal from their bank.

14.3%
Growth in profit after tax

12.1%
Increase in total assets

Today we serve 110,986 members across Victoria's police, health, emergency and public service communities. It is these members who are our priority. Listening and acting on the insights they provide is how we will shape our future and position ourselves for sustainable growth.

As a result, our forward focus will be on streamlining the products we offer and providing services that our members really value. This will be enabled through a commitment to transform our digital platforms and offerings, ensuring we can deliver great services to our members when and how they want them.

We will be increasing our investment in staff, especially those in member facing roles, to ensure we are equipped to achieve the best outcomes for members. We'll also be strengthening our risk and compliance capability to meet the ongoing challenges faced by the banking industry – namely cyber security, financial crime and staying at the forefront of technology.

Recently our Board made the decision to obtain a credit rating which will support the future lending growth of BankVic. This is an important step in positioning the bank for a sustainable future.

As always, we will continue to engage in responsible lending that's in alignment with our risk appetite.

This year we also saw a change at the helm of BankVic. In July, the Board was pleased to appoint Anthony De Fazio as the new Chief Executive Officer. Anthony has been with BankVic since January 2017 and has the full support and confidence of the Board. His strong financial background and experience within the Emergency Services sector made him a standout candidate.

We're looking forward to Anthony leading the BankVic team and driving our success into the future.

Wayne Taylor
Chair

CEO Message

We are pleased to deliver another strong result, continuing to provide financial wellbeing and peace of mind for our members, whilst reinvesting back into the community.

10.5%
Gross lending growth

12.8%
Increase in deposits

BankVic was founded to help police members and their families secure their own homes. This purpose is as relevant now as it has ever been. The steady decline in housing affordability in recent years has put home ownership further out of reach of first home buyers. And our members told us they were feeling it.

This is why we developed BankVic's First Home Buyer Package – a low rate loan to help more members get into their first home sooner. We were thrilled when this package was recognised as one of the best value 'first home buyer loans' in the 2018 Mozo Experts Choice Awards.

Finding ways to save our members' money remains a continued focus. This year we reduced 18 fees across our banking products, whilst still managing to keep our lending interest rates low.

We have also made banking easier by increasing our digital banking capability and delivering 'real time' payments via the New Payments Platform (NPP) with PayID. This enables our members to make online secure payments in a matter of seconds. In addition, we enhanced our mobile app to further enrich the member experience.

We are continuing to invest in personalised face-to-face banking services. In September we opened a new branch at Sunshine Hospital in St Albans, providing convenient access to members who work and live in Melbourne's west.

Our aim is to provide the best value banking for members and help them attain their goals in life. This could not be achieved without the on-going support, dedication, and outstanding work of the BankVic team.

I would like to thank the Board of Directors for the guidance and trust they have shown throughout the year, and to our members for their ongoing support. I am excited about the terrific opportunity to build on BankVic's success and be our members' first choice for banking.

Finally, I would like to thank retiring BankVic Directors, the Chair Wayne Taylor and Director David Boell for their outstanding contribution and excellent service over the past nine years. On behalf of the BankVic community we are extremely grateful to Directors Taylor and Boell for their leadership and dedication in helping shape BankVic into what it is today.

Anthony De Fazio
Chief Executive Officer


Police

Community

Just like our members support the Victorian community, we exist to support the communities and organisations that look after them.
It's our way of giving back and saying thanks.

> **When you wear the CFA logo, you’re there to represent the community and the brigade, not just yourself.**

Bailey Rhodes
CFA Youth Award winner

Community

WALL TO WALL
Remembrance ride
for Police Legacy

GARDEN
Project
For Sunshine
Hospital patients

$16,000
Raised
for Royal Children's
Hospital, Kids Day Out

BLUE RIBBON FOUNDATION
Angela Taylor Memorial
Walk & Run

Spirit of
CFA
Volunteer firefighter
Youth Awards

Strengthening communities

We're proud of our members who serve the community everyday. It's why we believe in lending support to the organisations and community initiatives that connect and benefit our members.

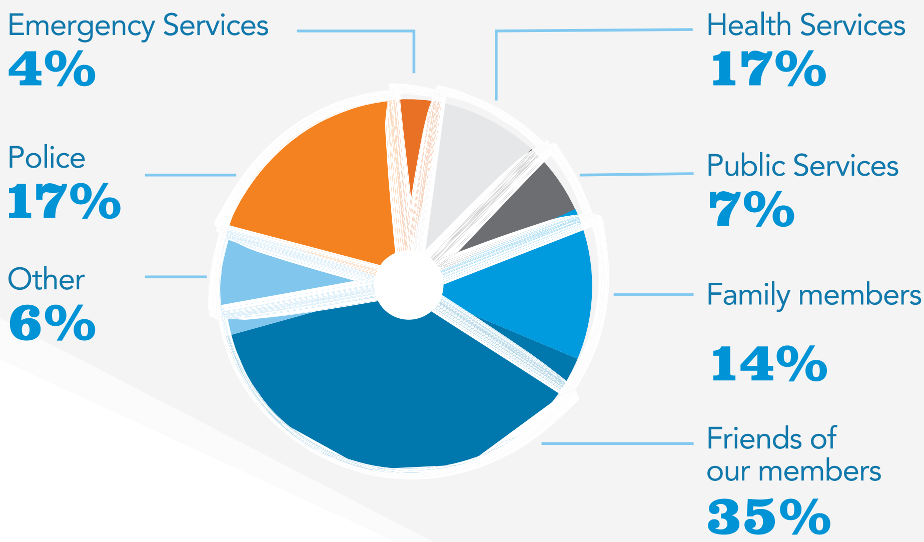
This year we contributed $257,000 in donations and sponsorships, continuing a history of financial support which has totalled $2.3 million since 2010.

We are proud to continue partnering with organisations such as The Police Association of Victoria, Victoria Police Legacy, the Blue Ribbon Foundation and Country Fire Authority, as well as our health community partners including Eastern Health, Northern Health, Mercy Health, Royal Melbourne Hospital, Western Health and Bendigo Health Foundation.

A highlight of our community involvement was the sponsorship provided to 'Kids Day Out', part of the annual Good Friday Appeal. BankVic staff united and got behind the charity event by creating one of the main attractions – the BankVic Ice Skating Wonderland. It helped raise more than $16,000 for the Royal Children's Hospital.

BankVic's support is more than just financial. Our 'Generous Life' staff volunteer program provides staff with two paid days per year to volunteer with a partner organisation and get involved in a worthwhile community cause.

Our members (by sectors)



> Everything we do is for the benefit of our members and the community. There aren't a lot of banks you can say that about.

Jessica Morassayan
Digital Marketing

Building for Tomorrow

While we are achieving today, we're also gearing for the future, delivering a strategy of rich member value and long term sustainable growth.

We're committed to growing BankVic by reconnecting with our members and the organisations that support them, and strengthening our core business and the value it represents. Investing in our staff and providing them with the right tools and infrastructure will ensure we are equipped to get the job done.

One thing will always remain constant – giving back to the member communities that make BankVic who we are.

Staff culture and leadership

Recognising that BankVic staff are our biggest asset, an additional 26 roles have been approved to support current employees and help them deliver the BankVic strategy. In 2019 the training budget for staff will also be doubled and an extended leadership development program will be implemented across the business.

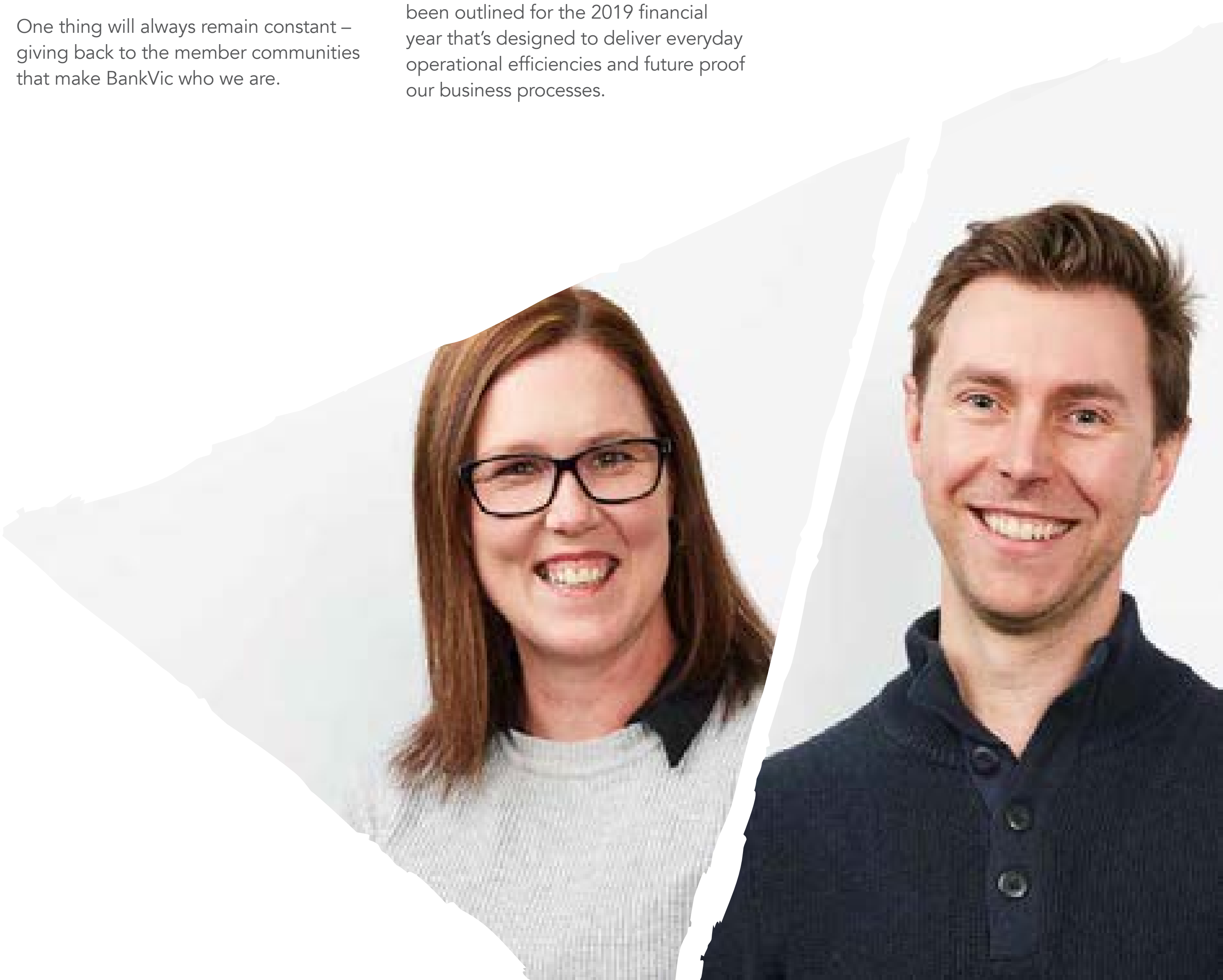
These initiatives are part of our commitment to improve workplace culture and staff wellbeing – setting up BankVic for continued success.

Digital transformation

A digital transformation program has been outlined for the 2019 financial year that's designed to deliver everyday operational efficiencies and future proof our business processes.

The program of work includes developing our strategic technology capability (including network and data solutions), uplifting our core banking systems and building a data warehouse and governance framework.

The digital transformation will extend through to the day to day working environment of our people - enhancing our ability to work with agility, collaborate and improve knowledge sharing.



Governance

At BankVic, we’re committed to being fair and accountable in everything we do. That’s who we are.

Board of Directors

1. Wayne Taylor

CHAIR

MEd, MBA, GradDipPubAdmin, DipTrain, DipSocialMedia & ORM, FAICD, FIML

Wayne is a current serving Victoria Police officer with 42 years of service. He was elected to the Board in 2009 and has been Chair since 2016. During 2017/18, Wayne was a member of the Remuneration & Transformation Committee.

2. Marianne Luttick

DEPUTY CHAIR

GAICD, FIML, AdvDipPublicSafety (Investigation)

Marianne started her career with Victoria Police in 2002 and currently serves as a Detective Sergeant with the Crime Command. She was elected to the Board in 2011 and appointed Deputy Chair in November 2017. Marianne was a member of the Corporate Governance Committee, Risk Committee and the Remuneration & Transformation Committee throughout 2017/18.

3. Steven John Coulson

DIRECTOR

GAICD, FCPA, FIML, CFE, BCom, GradDipFraudInvestigation, DipCompanyDirectorship

Steven was elected to the Board in 2013. He is a National Director with the Australian Taxation Office and has previously held senior management positions with the Department of Justice and Regulation, EY and Victoria Police. In addition Steven is a Director of Little Athletics Victoria. During 2017/18, Steven served as a member of the Audit Committee and is the Chair of the Remuneration & Transformation Committee.

4. Lucinda Nolan

DIRECTOR

GAICD, MA, BA (Hons), GradDip, PSM

Lucinda has 33 years experience working in the emergency services sector and has served as Deputy Commissioner with Victoria Police and CEO of the Country Fire Authority. She is currently CEO of the Ovarian Cancer Research Foundation, a Director of the Hawthorn Football Club and is a board member of the Penington Institute. Lucinda was elected to the Board in 2016 and was a member of the Risk Committee and Chair of the Corporate Governance Committee throughout 2017/18.

5. David Boell

DIRECTOR

BBus, AAICD

David has been a serving member of Victoria Police for 30 years. He was elected to the Board in 2009 and was Deputy Chair from 2014 to 2016. During the year David also served as Chair of the Risk Committee and as a member of the Corporate Governance Committee.

6. Adrian White

DIRECTOR

DipTrain, GradCertAppliedManagement, GAICD, FIML

Adrian has been a member of Victoria Police for 39 years and has served with the National Crime Authority and Australian Crime Commission. He was elected to the Board in 2011 and was a member of the Risk Committee and Chair of the Audit Committee.

7. Debra Robertson

DIRECTOR

AAICD

Debra is a Victoria Police officer with over 35 years experience. Previously she has served as Vice President of The Police Association Victoria (TPAV) and Director of the Police Federation Australia (PFA). Debra was elected to the Board in 2017 and was a member of the Audit Committee and the Corporate Governance Committee throughout 2017/18.

Auditors

KPMG

Tower Two, 727 Collins Street,
Melbourne, 3008

Solicitors

Wisewould Mahony

413 Collins Street,
Melbourne 3000

Banker

Westpac Banking Corporation

Affiliations

Indue Ltd

Board membership is as at 30 June 2018.

Committee memberships throughout 2017/18 is stated on pages 19 & 20.

Executive Team

1. Anthony De Fazio
CHIEF EXECUTIVE OFFICER

B.Com, CPA

Anthony was appointed CEO in July 2018, after previously serving as BankVic's Chief Financial Officer. With over 20 years experience in the finance, superannuation and investment sectors, Anthony provides leadership and direction to the BankVic team. He is passionate about putting members first and working with the Board and Executive team to develop relationships and lead the BankVic business strategy.

2. Rosemary Boissezon
CHIEF SALES OFFICER

GradDip-Bkg&Fin, SA Fin

Rosemary joined BankVic in May 2014 and is responsible for our branches and contact centre, as well as our lending, insurance, wealth management and sales performance. Previously working at Bank First and with over 36 years experience in banking and finance, Rosemary regularly represents BankVic in the 'Wall to Wall Ride for Remembrance' charity event for Police Legacy.

3. Scott Wall
CHIEF INFORMATION OFFICER

B.Sc, MBA

Scott was appointed CIO in March 2018 and is responsible for all technology at BankVic. A member of the BankVic team since September 2016, Scott has previously been our Chief Digital & Data Officer and Chief Innovation Officer. Prior to BankVic, he has held executive positions at ANZ Bank, Barclays, Deutsche Bank and Bankers Trust.

4. Michael McLennan
CHIEF RISK OFFICER

B.Bus FCPA

Michael joined BankVic in October 2016 and is responsible for BankVic's risk and compliance management function. With extensive experience in risk and financial management, Michael has previously held senior roles in the Australian finance sector and with Lloyds Banking Group in London.

5. Heather McGovern
CHIEF PRODUCT & MARKETING OFFICER

BA, Marketing

Heather has been with BankVic since October 2016 and is responsible for BankVic's products, marketing and digital channels. With a background in consumer banking, Heather has over 20 years experience leading teams that deliver member value at AIA, NAB, American Express and Royal Bank of Canada.

6. Andrew Carman
CHIEF FINANCIAL OFFICER

B.Bus, CPA

Andrew was appointed as our Acting CFO in April 2018 and is responsible for BankVic's operational performance, annual budgeting and financial management. A member of the BankVic team since August 2017, Andrew previously served as our Head of Finance - Strategy & Performance. He has worked in senior finance and commercial positions across both corporate and government sectors.

7. Michelle Arundel
CHIEF PEOPLE & CULTURE OFFICER

B.Bus, Dip Human Resources

Michelle joined BankVic in March 2018 and is responsible for building our culture, employee engagement and workforce performance. Michelle brings extensive people leadership, coaching and performance management experience and has held senior positions at Westpac, Australian Super and IAG.

8. Penny Maroulis
COMPANY SECRETARY

BA LLB (Hons)

Penny was appointed Company Secretary in October 2017 and is responsible for corporate governance and matters relating to the Board. Prior to joining BankVic, Penny held the role of advisor to the Chief Commissioner of Victoria Police. She has over 18 years experience in senior public sector roles covering corruption prevention, policy and law reform.

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.

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 & Transformation Committee and Nominations Committee. Each Committee has its own principal responsibilities.

Audit committee

Chair S. J. Coulson until 27 March 2018, A. J. White from 27 March 2018.

Members S. J. Coulson, A. J. White from 27 March 2018, J. W. Capewell until 25 July 2017, M. Luttick until 27 March 2018 and D. L. Robertson from 27 March 2018. 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;

Corporate Governance Statement (continued)

- 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

Chair D.R. Boell

Members D. R. Boell, A. J. White, L. J. Nolan and M. Luttick from 28 March 2018. 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 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

Chair M. Luttick until 19 December 2017, L. J. Nolan from 19 December 2017.

Members M. Luttick until 27 March 2018, W. G. Taylor until 24 October 2017, D. R. Boell, L. J. Nolan, and D. L. Robertson from 27 March 2018.

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 & Transformation committee

Chair A. J. White until 22 August 2017, S. J. Coulson from 28 February 2018.

Members A. J. White until 22 August 2017, S. J. Coulson, W. G. Taylor, and M. Luttick from 28 February 2018.

The Remuneration & Transformation 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).
- In November 2017 the Board expanded the remit of the Remuneration Committee to include transformation project matters, and changed the name of the Remuneration committee to the 'Remuneration and Transformation committee'.

Nominations committee

Chair W. G. Taylor

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 Chair of this Committee for the year 2017/2018 was W.G.Taylor, who was supported by two experienced advisors, independent of BankVic.

The independent advisors for 2017/18 were P.Crocker, the retired Chair of MECU Limited (Bank Australia), with 26 years experience as a credit union director and P. Mulraney, the current Chair of Defence Bank.

Directors' Report

Interests in the shares of the Company and related bodies corporate:POLICE FINANCIAL SERVICES LIMITED $1 WITHDRAWABLE SHARES

Ms. L. J. Nolan 10
Mr. W. G. Taylor 10
Mr. D. R. Boell 10
Ms. M. Luttick 10
Mr. A. J. White 10
Mr S. J. Coulson 10
Mr D. L. Robertson 10

Directors' meetings

During the financial year, 11 meetings of Directors, 5 Corporate Governance Committee, 4 Audit Committee, 4 Risk Committee, 3 Remuneration & Transformation 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 & Transformation Committee meetings		Nominations Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr. J. W. Capewell*	1	1	-	-	-	-	-	-	-	-	-	-
Ms. L. Nolan	11	11	4	4	-	-	5	5	-	-	-	-
Mr. W. G. Taylor	11	9	-	-	-	-	1	1	3	3	1	1
Mr. D. R. Boell	11	11	4	4	-	-	5	4	-	-	-	-
Ms. M. Luttick	11	10	2	2	2	2	3	3	1	1	-	-
Mr. A. J. White	11	11	4	4	2	2	-	-	1	1	-	-
Mr. S. J. Coulson	11	10	-	-	4	4	-	-	3	3	-	-
Ms. D. L. Robertson	8	7	-	-	2	2	2	2	-	-	-	-

*Mr. J. W. Capewell was a Director until 25 July 2017

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.

Results of operations

Profit after tax of the Company for the financial year was $12.6 million (2017: $11.1 million).

Review of operations

Growth

Over the past 12 months assets increased by 12.1%. Deposits increased by 12.8% reflecting continued member support. Loan demand continued in a historically low interest rate environment with gross loans increasing by 10.5%.

During the year membership grew 2.9% 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 $12.6 million, an increase of 14.3% over the previous year. Total income for the year was $52.2 million, an increase of 8.8% over the previous year. Operating expenses for the year were $34.3 million, an increase of 7.0% 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 20.2% in 2017 to 19.7% in 2018 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 products and services, and the value provided to our members.

We have listened to our members about the challenges of home ownership. As a result we launched the First Home Buyer Package that brings more members closer to buying their first home.

Our new Sunshine Hospital branch opened in September and now makes it easier for members in the health precinct and in Melbourne's west, to connect with branch staff and receive a more personal level of service.

Directors' report (continued)

Our investment in digital banking was highlighted through the delivery of;

- Updated version of the BankVic mobile app.
- Touch and Face ID capabilities for iOS devices
- Real-time payments to members with the launch of the New Payments Platform (NPP) with PayID.

Dividends

No dividends have been paid or declared since the end of the previous financial year (2017: Nil).

Share issues

The only shares issued by the Company during the year were 43,670 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 55,260 $1 redeemable preference shares redeemed during the year.

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.

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.

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.

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.

Likely developments

In the coming year, BankVic will continue to launch services and products to ensure our members' financial wellbeing and help them stay ahead at every life stage.

Our products will be further tailored to our core segments including the Force Package, First Home Buyers Package and a new transaction product.

We will continue to expand digital technology with the launch of mobile payments.

We will continue to ensure our members are protected with further investments in both cyber security and fraud monitoring.

Additionally we will further improve the member experience as we commence work on a new enterprise contact centre platform and a upgrade to the core banking system.

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.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 23 and forms part of the Directors' report for the financial year ended 30 June 2018. Signed this 26th day of September 2018, in accordance with a resolution of the Board of Directors.

Wayne Taylor
Chair

Marianne Luttick
Deputy Chair

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 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Maria Trinci

Maria Trinci

Partner

Melbourne

26 September 2018

Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Interest income	4a	**67,811**	63,022
Interest expense	4b	**(26,430)**	(24,444)
Net interest income		**41,381**	38,578
Other income	4c	**10,798**	9,361
Total income		**52,179**	47,939
Impairment losses on loans and advances (net of recoveries)	4d	**(194)**	(155)
Salaries and related expenses		**(16,271)**	(14,853)
Card and payment expenses		**(6,924)**	(6,768)
Other expenses	4e	**(10,881)**	(10,265)
Profit before income tax expense		**17,909**	15,898
Income tax expense	5	**(5,272)**	(4,839)
Profit for the period		**12,637**	11,059
Other comprehensive income		**-**	-
Total comprehensive income		**12,637**	11,059
Total comprehensive income available to members		**12,637**	11,059

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

Balance Sheet

As at 30 June 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and Cash Equivalents	6	**47,275**	26,416
Receivables Due from Other Financial Institutions	7	**332,466**	292,611
Accrued Receivables and Other Assets	8	**2,856**	2,209
Loans and Advances (Net)	9	**1,441,624**	1,304,928
Investments	10	**2,225**	2,225
Property, Plant and Equipment	11	**2,067**	2,326
Intangible Assets	12	**–**	51
Deferred Tax Asset	5	**1,804**	2,107
TOTAL ASSETS		**1,830,317**	1,632,873
Liabilities			
Deposits	13	**1,595,735**	1,415,085
Payables	14	**9,506**	8,843
Borrowings	15	**44,670**	40,596
Current Tax Liability		**237**	749
Provisions	16	**2,537**	2,605
TOTAL LIABILITIES		**1,652,685**	1,467,878
NET ASSETS		**177,632**	164,995
Members' Funds			
Reserves		**15,677**	15,611
Redeemed Capital Reserve		**451**	396
Retained Earnings		**161,504**	148,988
TOTAL MEMBERS' FUNDS		**177,632**	164,995

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

Statement of Changes in Equity

As at 30 June 2018

	General Reserve $'000	General Reserve for Credit Losses $'000	Redeemed Preference Share Capital Account $'000	Retained Earnings $'000	Total Member Funds $'000
Balance as at 1 July 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
Balance as at 1 July 2017	**15,000**	**611**	**396**	**148,988**	**164,995**
Increase in reserve during the year	**-**	**66**	**-**	**(66)**	**-**
Transfer from retained earnings	**-**	**-**	**55**	**(55)**	**-**
Profit or loss	**-**	**-**	**-**	**12,637**	**12,637**
Balance as at 30 June 2018	**15,000**	**677**	**451**	**161,504**	**177,632**

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

Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**67,803**	62,820
Interest paid		**(25,822)**	(24,405)
Other income received		**10,512**	9,586
Cash payments to suppliers and employees		**(34,004)**	(30,085)
Net (increase) in loans and advances		**(136,895)**	(110,836)
Net increase in deposits		**180,662**	102,465
Net decrease/(increase) in receivables due from other financial institutions		**(39,856)**	(28,086)
Income tax paid		**(5,480)**	(5,215)
Net increase/(decrease) in settlement accounts		**3,229**	(5,567)
Net increase/(decrease) in short term borrowings		**845**	27,531
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**20,994**	(1,792)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**69**	34
Payments for investments		**-**	-
Payments for property, plant and equipment		**(192)**	(518)
Net Cash outflow used in Investing Activities		**(123)**	(484)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase/(decrease) in member shares		**(12)**	17
Net Cash inflow provided by Financing Activities		**(12)**	17
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**20,859**	(2,259)
Cash and cash equivalents at Beginning of Financial Year		**26,416**	28,675
Cash and cash equivalents at End of Financial Year	17(i)	**47,275**	26,416

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes To and Forming Part of the Financial Statements

For the year ended 30 June 2018

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 26 September 2018.

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:

- 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 Company. 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.

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.

Notes To and Forming Part of the Financial Statements (continued)

f. Derecognition of financial assets and liabilities

i. Financial assets

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

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

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

ii. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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.

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.

Notes To and Forming Part of the Financial Statements (continued)

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

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

Interest receivable on investments is included in the amount of trade and other receivables in the Balance Sheet.

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

ii. Lending fees

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

iii. Other non-interest income

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

o. Expenses

i. Interest expense

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

ii. All other operating expenses

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

p. Intangible assets

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

Amortisation

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

q. Directors' severance benefits

A Director appointed or elected 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 or elected 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 2001 (Cth).*

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 2018, but have not been applied in preparing this financial report. The Company has prepared its analysis of the transitional impact of the respective standards, including input from auditors and advisors. Where relevant the estimated impact of the adoption of these standards on the Company's equity as at 1 July 2018 is outlined below, otherwise the analysis 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, and equity securities designated as at FVOCI, which are not subject to impairment assessment. 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. The estimated adjustment to the opening balance of the Company's equity at 1 July 2018 is a decrease to retained earnings in the range of $800,000 to $1,500,000.

Notes To and Forming Part of the Financial Statements (continued)

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 balance sheet 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 assessed all revenue streams that fall within the scope of the standard, which indicates that transition impacts will be immaterial. As a result there is no impact to the opening balance of the Company's equity at 1 July 2018.

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.

	2018 $'000	2017 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**58,925**	54,085
Commercial Loans	**17**	15
Other Financial Institutions	**8,869**	8,834
Securitised Loans	**–**	88
Total Interest Income	**67,811**	63,022
b. Interest Expense		
Member Deposits	**25,792**	23,689
Securitised Loans	**–**	85
Short Term Borrowings	**638**	670
Total Interest Expense	**26,430**	24,444
c. Other Income		
Fees and Commissions	**6,910**	6,309
Insurance Commissions	**3,369**	2,972
Other Income	**494**	46
Income from Property	**–**	-
Profit/(Loss) on Sale of Property, Plant and Equipment	**25**	34
Total Other Income	**10,798**	9,361
d. Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**63**	37
Increase/(decrease) in Provision for Impairment	**136**	131
Bad Debts Recovered	**(5)**	(13)
	194	155

Notes To and Forming Part of the Financial Statements (continued)

	2018 $'000	2017 $'000
Note 4: Profit (continued)		
e. Other expenses		
Depreciation and amortisation	**458**	409
Amounts set aside to provide for employee entitlements	**448**	398
Administration costs	**2,494**	2,510
Motor vehicle running costs	**174**	151
Supervision levies	**187**	169
Professional services costs	**389**	367
Product and marketing costs	**1,207**	870
Information technology costs	**2,942**	3,120
Operating lease rentals	**1,107**	1,030
Occupancy costs	**547**	444
Directors' fees	**480**	415
Directors' severance benefits	**127**	91
Insurance – general	**132**	126
Other expenses	**189**	165
	10,881	10,265

	2018 $'000	2017 $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**4,989**	5,202
Under/(Over) provided in prior year	**(20)**	25
	4,969	5,227
Deferred tax expense		
Utilisation/(Recognition) of Temporary Differences	**303**	(388)
Total Income Tax Expense in Income Statement	**5,272**	4,839
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**17,909**	15,898
Income tax using the domestic corporation tax rate of 30% (2017: 30%)	**5,373**	4,769
Increase in income tax expense due to:		
- Non-deductible expenses	**18**	53
Decrease in income tax expense due to:		
- Non-assessable income	**(99)**	(8)
	5,292	4,814
Under/(Over) provided in prior year	**(20)**	25
Income tax expense on pre-tax profit	**5,272**	4,839

	Assets 2018 $'000	Assets 2017 $'000	Liabilities 2018 $'000	Liabilities 2017 $'000	Net 2018 $'000	Net 2017 $'000
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(311)**	(270)	**-**	-	**(311)**	(270)
Provision for Directors' Severance Benefits	**(132)**	(140)	**-**	-	**(132)**	(140)
Property, Plant and Equipment	**(50)**	(56)	**-**	-	**(50)**	(56)
Payables	**(682)**	(1,000)	**-**	-	**(682)**	(1,000)
Employee Entitlements	**(629)**	(641)	**-**	-	**(629)**	(641)
Net tax (assets)/liabilities	**(1,804)**	(2,107)	**-**	-	**(1,804)**	(2,107)

Notes To and Forming Part of the Financial Statements (continued)

	2018 $'000	2017 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**817**	629
Deposits at Call	**46,458**	25,787
	47,275	26,416
Note 7: Receivables due from other Financial Institutions		
Negotiable Certificates of Deposit	**94,740**	86,985
Floating Rate Notes *	**182,950**	134,650
Term Deposits	**54,776**	70,976
	332,466	292,611

*As at 30 June 2018 $39.8m of FRNs have been subject to repurchase agreement (2017: $38.8m) Refer to note 3 (b).

	2018 $'000	2017 $'000
a. Maturity Analysis		
Up to 3 months	**125,108**	116,658
From 3 months to 1 year	**51,058**	53,303
From 1 year to 5 years	**156,300**	122,650
Later than 5 years	**-**	-
	332,466	292,611
b. Market Value		
Negotiable Certificates of Deposits, Floating Rate Notes and Term Deposits	**332,039**	292,818

In 2018, FRNs and Bank Term Deposits have an average maturity of 581 days (2017: 519 days) with effective interest rates of 1.90% to 4.01% (2017: 1.74% to 3.68%) p.a.

	2018 $'000	2017 $'000
Note 8: Accrued Receivables and Other Assets		
Interest receivable	**1,595**	1,587
Other	**1,261**	622
	2,856	2,209
Note 9: Loans and Advances		
Continuing credit facilities	**20,914**	20,994
Other loans and advances *	**1,421,200**	1,284,131
Directors and Director-related parties	**547**	704
Externally Securitised loans	**-**	-
	1,442,661	1,305,829
Provision for impairment	**(1,037)**	(901)
Net loans and advances	**1,441,624**	1,304,928

*As at 30 June 2018 $218m (2017: $163m) 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).

	2018 $'000 Gross loans	2018 $'000 Provisions	2017 $'000 Gross loans	2017 $'000 Provisions
Note 9: Loans and Advances (continued)				
a. Maturity analysis				
Up to 3 months	**36,589**	**(7)**	35,486	-
From 3 months to 1 year	**43,489**	**(235)**	39,378	(216)
From 1 year to 5 years	**218,691**	**(31)**	195,277	(81)
Later than 5 years	**1,143,892**	**(764)**	1,035,688	(604)
	1,442,661	**(1,037)**	1,305,829	(901)
b. Loans by security				
Secured by mortgage*	**1,387,509**	**(252)**	1,248,424	(214)
Secured other	**27,815**	**(85)**	28,417	(139)
Unsecured	**27,337**	**(700)**	28,988	(548)
	1,442,661	**(1,037)**	1,305,829	(901)
c. Loans by purpose				
Residential	**1,387,158**	**(252)**	1,248,184	(214)
Personal	**55,152**	**(785)**	57,405	(687)
Commercial	**351**	**-**	240	-
	1,442,661	**(1,037)**	1,305,829	(901)

* The loan to value of the collateral for loans secured by mortgage as at 30 June 2018 was 47.4% (2017: 56.5%)

	2018 $'000	2017 $'000
d. Concentration of risk		
i. As at 30 June 2018 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:		
Victoria Police	**487,562**	438,665
Health	**159,087**	133,919
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	**901**	770
Transfer from/(to) profit and loss account	**136**	131
Balance at the end of the year	**1,037**	901

Notes To and Forming Part of the Financial Statements (continued)

	2018 $'000	2017 $'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	**1,009**	832
Provision for impairment	**(1,037)**	(901)
Net non-accrual loans	**(28)**	(69)
Personal and unsecured loan balances – 90 days past due	**605**	525
i. Interest forgone on non-accrual loans	**52**	45
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	**1,300,196**	1,180,348
Past due but not specifically impaired		
0 - 30 Days	**137,243**	119,412
30 - 60 Days	**762**	1,715
60 - 90 Days	**1,472**	960
90+ Days	**1,979**	2,562
	141,456	124,649
Collectively Impaired		
Carrying amount	**1,009**	832
Allowance for impairment	**(1,037)**	(901)
	(28)	(69)
Total	**1,441,624**	1,304,928

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

	2018 $'000	2017 $'000
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.

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.

	2018 $'000	2017 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	**2,243**	1,840
Less accumulated depreciation	**(757)**	(546)
	1,486	1,294
Plant and Office Equipment at cost	**4,250**	4,084
Less accumulated depreciation	**(3,669)**	(3,429)
	581	655
Capital Work in Progress	**-**	377
Total	**2,067**	2,326

	Leasehold Improvements $'000	Plant and Office Equipment $'000	Capital Work in Progress $'000	Total $'000
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
2018				
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment				
Balance at 1 July 2017	**1,294**	**655**	**377**	**2,326**
Additions	**26**	**166**	**-**	**192**
Transfers from Capital Work in Progress	**377**	**-**	**(377)**	**-**
Disposals	**-**	**-**	**-**	**-**
Depreciation expense	**(211)**	**(240)**	**-**	**(451)**
Carrying amount at 30 June 2018	**1,486**	**581**	**-**	**2,067**

Notes To and Forming Part of the Financial Statements (continued)

	2018 $'000	2017 $'000
Note 12: Intangible Assets – Software		
At cost	2,263	2,331
Accumulated amortisation	(2,263)	(2,280)
Net carrying amount	-	51
Carrying amount at the beginning of the year	51	-
Additions	-	68
Disposals	(44)	-
Amortisation expense	(7)	(17)
Carrying amount at the end of the year	-	51
Note 13: Deposits		
Call deposits	1,233,448	1,122,872
Term and at notice deposits	361,299	291,214
Redeemable preference shares	988	999
	1,595,735	1,415,085
a. Maturity Analysis		
Deposits are repayable over the following terms:		
On call	1,233,448	1,122,872
Up to 3 months	184,184	127,087
From 3 months to 6 months	78,439	68,225
From 6 months to 1 year	66,059	46,788
From 1 year to 5 years	32,617	49,114
No maturity	988	999
	1,595,735	1,415,085
b. Concentration of Risk		
i. As at 30 June 2018 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:		
Victoria Police	232,500	201,527
Health	130,699	109,707
iii. The geographic concentration of deposits in the State of Victoria	89%	91%

	2018 $'000	2017 $'000
Note 14: Payables		
Accrued deposit interest	2,710	2,102
Creditors and accrued expenses	6,796	6,741
	9,506	8,843
Note 15: Borrowings		
Settlement Accounts	7,486	4,257
Repurchase Agreements	35,310	34,465
Other loans	1,874	1,874
	44,670	40,596
Maturity Analysis		
Borrowings will be repaid under current repayment conditions over the following periods:		
Up to 3 months	33,976	29,775
From 3 months to 1 year	8,820	8,947
From 1 year to 5 years	1,874	1,874
Later than 5 years	-	-
	44,670	40,596
Note 16: Provisions		
Employee Entitlements	2,096	2,138
Directors' Severance Benefits*	441	467
	2,537	2,605

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 $0.94m (2017: $0.99m), non current $0.33m (2017: $0.30m)
- Probability factor of 30% in year 1 increasing to 100% from 7 years onwards.
- Future increases in wage and salary rates including related on costs of 3.00% per annum.
- Discounted using Commonwealth Government bond rates, which have maturity dates approximating the terms of the company obligations. Average rate of 2.32% p.a.

Annual Leave Current $0.83m (2017: $0.84m)

- 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.

Notes To and Forming Part of the Financial Statements (continued)

	2018 $'000	2017 $'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	817	629
Deposits at call	46,458	25,787
	47,275	26,416
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit after income tax	12,637	11,059
Adjustments for:		
(Profit)/Loss on sale of non-current assets	(25)	(34)
Bad debts written off	63	37
Amounts set aside to provide for impairment	136	131
Depreciation and Amortisation	459	409
Net cash provided by operating activities before changes in working capital and provision	13,270	11,602
Decrease/(Increase) in deferred tax assets	304	(389)
(Increase)/Decrease in interest receivable	(9)	(201)
(Increase)/Decrease in other assets	(640)	208
Increase in interest payable	608	39
Increase in creditors and accrued expenses	55	1,524
(Decrease)/Increase in provision for employee entitlements	(41)	13
(Decrease)/Increase in taxes payable	(512)	12
Net (Decrease) in directors severance benefits	(26)	(107)
Net (Increase) in loans and advances	(136,895)	(110,836)
Net increase in deposits	180,662	102,465
(Increase) in receivables due from other financial institutions and investments	(39,856)	(28,086)
Net Increase/(Decrease) in settlement accounts	3,229	(5,567)
Net Increase/(Decrease) in short term borrowings	845	27,531
Net cash flows from operating activities	20,994	(1,792)

	2018 $'000	2017 $'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	**43,017**	35,451
Undrawn continuing line of credit commitments	**56,930**	56,760
Balance available for redraw under redraw facilities of term loans	**205,982**	186,498
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**1,682**	1,581
One year or later and no later than five years	**5,973**	6,003
iii. Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	**-**	-

	2018 $	2017 $
Note 19: Auditors' Remuneration		
Auditors of the Company – KPMG Australia		
Audit of financial report	**111,515**	109,135
Other regulatory audit services	**89,036**	87,286
Taxation services	**31,382**	26,686
Consultancy Services	**43,480**	-
	275,413	223,107

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: J. W. Capewell until 25 July 2017, W. G. Taylor, D. R. Boell, M. Luttick, A. J. White, S. J. Coulson, L. J. Nolan and D.L. Robertson from 16 November 2017.

b. Executives/Managers

S. Capello, Chief Executive Officer until 20 April 2018

A. De Fazio, Acting Chief Executive Officer from 23 April 2018, Chief Financial Officer until 23 April 2018, Company Secretary until 3 October 2017

P. Maroulis, Company Secretary from 3 October 2017

G. Miller, Chief Technology Officer

M. Ruiz, Chief People and Culture Officer until 23 February 2018

M. Arundel, Acting Chief People and Culture Officer from 25 June 2018

Notes To and Forming Part of the Financial Statements (continued)

Note 20: Key Management Personnel Disclosures continued

R. Boissezon, Chief Sales Officer

S. Wall, Chief Information Officer

M. McLennan, Chief Risk Officer

H. McGovern, Chief Product and Marketing Officer

A. Carman, Acting Chief Financial Officer from 23 April 2018

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:

	2018	2017
Directors' Fees	**480,225**	415,295
Directors' Severance Benefits	**126,841**	91,446
Short-term employee benefits – salaries/fees/non-monetary benefits	**2,863,332**	2,432,982
Other long-term benefits	**34,110**	33,726
Post-employment benefits – superannuation contributions	**206,575**	176,108
	3,711,083	3,149,557

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:

	2018	2017
Balance owing as at 30 June	**1,459,838**	5,358,741
Summary of Transactions		
New Advances	**473,830**	3,621,416
Repayments made during the year	**4,485,589**	728,835
Interest Received on loans to key management personnel	**112,856**	149,073

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, A.J. White, D. L. Robertson, 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 or elected 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 or elected 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 2001 (Cth)*.

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

The amount provided for Directors' severance benefit is estimated on an accruals basis even though a Director may not have served the required term of office. The provision at 30 June 2018 is $440,734 (2017: $467,074) 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 & Transformation Committee oversees remuneration in accordance with the organisation's Remuneration Policy developed with reference to APRA's prudential standard CPS 510. In November 2017 the Board expanded the remit of the Remuneration Committee to include transformation project matters, and changed the name of the Remuneration committee to the 'Remuneration and Transformation committee'. The Committee for the 2017/18 year was comprised of directors Mr Adrian White (Committee Chairman and Member until 28 February 2018), Mr Steven Coulson (Committee Chairman from 28 February 2018), Mr Wayne Taylor and Ms Marianne Luttick from 28 February 2018.

The Remuneration & Transformation 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 & Transformation 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 (eight persons in total) as well as Head of Finance, Head of Operations, Head of Contact Centre, Risk Specialist and Regional Branch Manager functions (five persons in total).

The Remuneration & Transformation 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 & Transformation 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.

Notes To and Forming Part of the Financial Statements (continued)

In regard to staff subject to CPS 510, thirteen received variable remuneration awards during the financial year, while none received a guaranteed bonus or sign-on award. 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:

	2018		2017	
	No. of Employees	$ Total	No. of Employees	$ Total
i. Total value of variable remuneration awards				
Variable remuneration award – bonus	**13**	**382,067**	12	280,408
Guaranteed bonuses	-	-	-	-
Sign-on award	-	-	-	-
Termination payments	-	-	1	65,169
Total	**13**	**382,067**	13	345,577

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

	2018			2017		
Fixed Remuneration	$ Unrestricted	$ Deferred	$ Total	$ Unrestricted	$ Deferred	$ Total
Cash Based	**3,078,342**	-	**3,078,342**	2,865,180	-	2,865,180
Shares	-	-	-	-	-	-
Other	**262,526**	-	**262,527**	249,069	-	249,069
	3,340,868	-	**3,340,808**	3,114,249	-	3,114,249
Variable Remuneration						
Cash Based	**382,067**	-	**382,067**	280,408	-	280,408
Shares	-	-	-	-	-	-
Other	-	-	-	-	-	-
	382,067	-	**382,067**	280,408	-	280,408
Total Value	**3,722,935**	-	**3,722,935**	3,394,657	-	3,394,657

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	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total carrying amount as per Balance Sheet
30 June 2018	$'000	$'000	$'000	$'000	$'000	$'000
i. Financial assets						
Cash and Cash Equivalents	46,458	-	-	-	817	47,275
Receivables	-	-	-	-	2,856	2,856
Term Deposits	-	54,776	-	-	-	54,776
Certificates of Deposit	-	94,740	-	-	-	94,740
Floating Rate Notes	-	26,650	156,300	-	-	182,950
Loans and Advances	1,286,143	26,216	129,265	-	-	1,441,624
Equity Investments	-	-	-	-	2,225	2,225
	1,332,601	202,382	285,565	-	5,898	1,826,446
ii. Financial liabilities						
Payables	-	-	-	-	9,506	9,506
Deposits	1,235,779	327,339	32,617	-	–	1,595,735
Borrowings	7,486	35,310	-	-	1,874	44,670
	1,243,265	362,649	32,617	-	11,380	1,649,911

Notes To and Forming Part of the Financial Statements (continued)

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
30 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	-	86,985	-	-	-	86,985
Floating Rate Notes		12,000	122,650			134,650
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

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.

Note 22: Financial Instruments (continued)

On Balance Sheet Financial Instruments	Total Carrying Amount as per Balance Sheet		Aggregate Net Fair Value	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
i. Financial assets				
Cash and liquid assets	**47,275**	26,416	**47,275**	26,416
Receivables	**2,856**	2,209	**2,856**	2,209
Term deposits	**54,776**	70,976	**54,771**	71,006
Certificates of deposit	**94,740**	86,985	**94,776**	87,017
Floating Rate Note	**182,950**	134,650	**183,348**	134,795
Loans and advances	**1,441,624**	1,304,928	**1,441,884**	1,305,659
Equity Investments	**2,225**	2,225	**2,225**	2,225
Total financial assets	**1,826,446**	1,628,389	**1,827,135**	1,629,327
ii. Financial liabilities				
Payables	**9,506**	8,843	**9,506**	8,843
Deposits	**1,595,735**	1,415,085	**1,595,737**	1,415,188
Borrowings	**44,670**	40,596	**44,670**	40,596
Total financial liabilities	**1,649,911**	1,464,524	**1,649,913**	1,464,627

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

Notes To and Forming Part of the Financial Statements (continued)

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 2018, the Company had 18.2% of total liabilities as liquid assets and High Quality Liquid Assets (HQLA) ratio 15.6%. Various trigger levels have been set to ensure appropriate measures are undertaken to maintain liquidity above the minimum level.

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

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

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

30 June 2018

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*	**1,595,735**	**1,600,662**	**1,304,443**	**146,843**	**115,492**	**33,884**	**-**
Trade and other payables	**9,506**	**9,506**	**9,506**	**-**	**-**	**-**	**-**
Borrowings	**44,670**	**44,670**	**18,214**	**17,636**	**8,820**	**-**	**-**
Total	**1,649,911**	**1,654,838**	**1,332,308**	**165,365**	**126,255**	**30,910**	**-**

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	-

* 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.

	2018 $'000	2017 $'000
1% increase	**4,257**	3,636
1% decrease	**(4,473)**	(3,562)

Notes To and Forming Part of the Financial Statements (continued)

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 19.6% of risk weighted assets as at 30 June 2018. (30 June 2017: 20.1%)
- 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 2018. (30 June 2017: 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.

Note 24: Regulatory Capital Reconciliation

i. Tier 1 Capital	2018 $'000	2017 $'000
General Reserve	**15,000**	15,000
Redeemed Preference Share Capital Account	**451**	396
Retained Earnings	**161,504**	148,988
	176,955	164,384
Less Deduction's from Tier 1 Capital		
Deferred Tax Assets	**(1,804)**	(2,108)
Intangible Assets – Software	**-**	(51)
Equity Investment in Indue Ltd.	**(2,205)**	(2,205)
Equity Investment in SPP Pty Ltd	**(20)**	(20)
	(4,029)	(4,384)
Total Tier 1 Capital	**172,926**	160,000
ii. Tier 2 Capital		
Provision for General Reserve	**677**	611
Total Tier 2 Capital	**677**	611
Total Regulatory Capital	**173,603**	160,611
iii. Capital Ratios		
Tier 1 Capital	**19.6%**	20.1%
Total Regulatory Capital	**19.7%**	20.2%
Reconciliation of Regulatory Capital to Balance Sheet		
Total Members Funds	**177,632**	164,995
Less Deduction's from Tier 1 Capital	**(4,029)**	(4,384)
Total Regulatory Capital	**173,603**	160,611

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 26 to 57 are in accordance with the *Corporations act 2001 (Cth)*, including:

   i. giving a true and fair view of the Company's financial position as at 30 June 2018 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 2018

Signed in accordance with a resolution of the Directors.

Wayne Taylor
Chair

Marianne Luttick
Deputy Chair

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 2018 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 2018;
- 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; and
- 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.

KPMG

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; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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_responsibilities/ar4.pdf. This description forms part of our Auditor’s Report.

KPMG

KPMG

Maria Trinci

Maria Trinci

Partner

Melbourne

26 September 2018