BankVic

ANNUAL REPORT 2019

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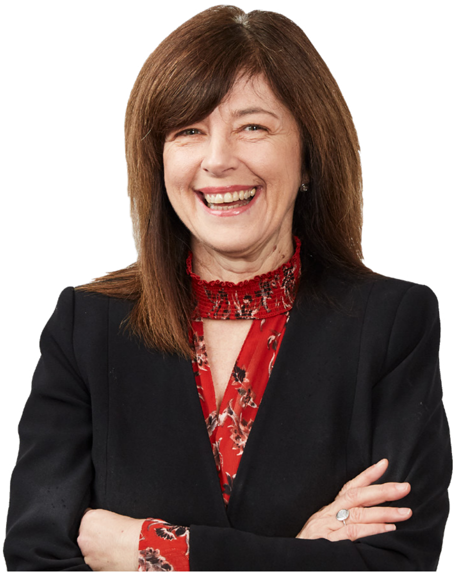


Chair Message

Delivering on our vision to be the most trusted financial institution for our members, is our priority.

On behalf of the Board, I am pleased to present the 2019 Annual Report.

When we began in 1974 as the Police Association Credit Co-op, our purpose was to help police officers get a better deal from their bank. Fast forward 45 years and this is only going from strength to strength; we have been strategically reconnecting with our heartland in Police and establishing strong relationships with our bonds in Health and Emergency Services.

This year, BankVic reached milestones that go beyond the financial industry standard. We saw increases in membership and above market growth in home lending that helped us achieve a record high asset position of over $2 Billion. We also received the bank's first ever Credit Rating and welcomed two Board Appointed Directors in Michael Liu and Faith Page strengthening the overall experience, expertise and diversity of the Board.

The financial services landscape has changed dramatically over the last 12 months as a result of the Banking Royal Commission. BankVic has closely followed these developments and will continue to ensure our members have confidence that BankVic are a trustworthy, strong and sustainable choice to guide them towards the financial future their hard work deserves.

Looking forward, we recognise the significance that mental health and wellbeing plays in the lives of our Police, Health and Emergency Services members. Research shows that financial issues and mental health problems often go hand-in-hand. BankVic are committed to continuing to work with our agency partners who are already working hard in this area, to support their efforts.

BankVic acknowledges and welcomes diverse perspectives. We currently have an equal gender ratio in our senior leadership (Board and Executives) and are excited to be working towards broadening our understanding of true diversity and inclusion.

As we continue to grow, it is important to reiterate that all profits from BankVic's success are channeled back to members. This is through our competitive product offerings, high standard of personalised service and supporting organisations that support our members.

Our strategy moving forward is simple; to provide great products and services, to increase our membership in the health and emergency services sector, to be a genuine partner to our bond agencies and to ensure that our growth is financially sound and sustainable. To our wonderful and committed staff, we want to remain an employer of choice.

It has been a wonderful privilege to serve my first year as Chair at BankVic. I would like to thank my fellow Directors, our CEO Anthony De Fazio and the Executive Team for all your support in what has been, another successful year.

And to our valued members, we exist to serve you. Without you, there is no BankVic, so thank you for continuing to allow us to be part of your community.

Marianne Luttick
Chair

CEO Message

Serving those who serve the community.

At BankVic, we serve those who serve the community and we are committed to continually improving the banking experience of our members. I am proud to share the results of this commitment for 30 June 2019 in what has been a successful and rewarding year.

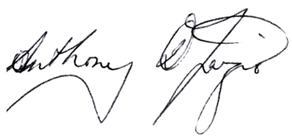
We officially reached $2 billion in assets in February and achieved 16% growth in both our lending and deposit portfolios for the year. In January, BankVic obtained its first ever Credit Rating, providing access to more diverse and cost-effective sources of funding. We continued to champion the financial wellbeing and security of our members, helping over 200 members move into their first home, with an additional 1,200 members purchasing, renovating and refinancing homes.

The focus on our digital transformation continued, improving our technology capability to enable us to service our members in the safest and fastest possible way. We made payment options easier and more convenient for our members, with the launch of Apple Pay and Google Pay in April and May respectively, enabling members to pay for goods and services using their mobile devices. We also made banking easier by simplifying our transaction account offering to one with all the best features such as no account keeping fees, no minimum deposit requirements and no ATM fees at the major 4 banks and overseas ATMs.

As always, we have loved the opportunities to celebrate our communities. We are proud to have committed to our partnerships with Victoria Police Legacy, the Police Association Victoria, Blue Ribbon Foundation, Emergency Services Foundation, and to have sponsored the inaugural Hawthorn Football Club Emergency Services match, celebrating the Victorian emergency services community. We continued to support our members' organisations and have now contributed $2.7 million in donations and sponsorships since 2010; you can read more about our community partnerships further in this Annual Report.

Our annual member satisfaction survey reflected our ongoing dedication and support the BankVic team has for its members. With an overall score of 96% (95% in 2018) we are proud to contribute to delivering outstanding service. Our people are our greatest asset and the driving force of BankVic, and I thank each member of our team for their efforts.

I thank the BankVic Board of Directors for the guidance and support they have shown throughout the year. Finally, to our members, thank you for all your ongoing support, we would not be where we are without you and we look forward to the coming year with great enthusiasm.



Anthony De Fazio
Chief Executive Officer

BankVic was founded as Police Association Credit Co-op in 1974 by police, for police.

Today, BankVic represents Victorian police, health, emergency and public service employees, as well as their families and friends. In fact, there are now over 113,000 BankVic members and we welcomed over 6,000 new members in FY19 alone.

We are 100% member-owned and we offer a different way of banking, where all our profits are reinvested to provide members with better value banking and to support our community. We want our members to feel supported. 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

1999
50,000 members!

2001
Internet banking launches

2009
e-Statements introduced

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

2019
Inaugural credit rating

$2 Billion
in assets

Digital wallet

FY19 Highlights

113,541
Total members

Digital Wallet
Launched Digital Wallet secure payments with Apple Pay* and Google Pay**

$2 Billion
In assets

New Transaction Account
All our best features rolled into one simple account

96%
Member satisfaction

80 Partner Events
Supported

$2.7 Million
Community donations and sponsorships

Since 2010

20% of First Home Buyer Loans
Taken up by BankVic members who joined as children

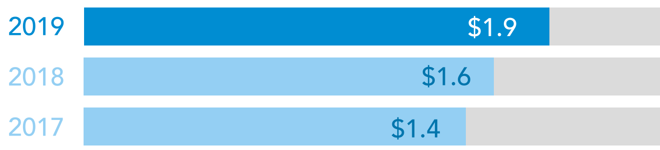
All numbers are current as at 30 June 2019.

*For a list of compatible Apple Pay devices, see support.apple.com/en-au/km207105.
** Android and Google Pay are trademarks of Google LLC.

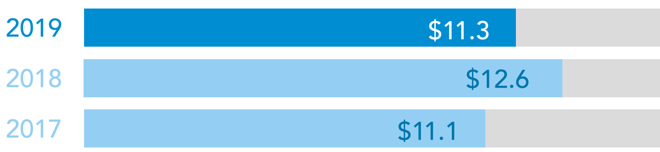
Financial Highlights

Loans ($'billion)

Deposits ($'billion)



Profit after tax ($'million)



Members funds ($'million)

COMMUNITY

We support the organisations that support our members.

It's our way of giving back and saying thanks.

This year, we contributed $425,967 in donations and sponsorships. This has raised our total contributions since 2010 to $2.7million.

We are proud to continue partnering with organisations such as The Police Association of Victoria (TPAV), Victoria Police Legacy (VPL), the Blue Ribbon Foundation, Emergency Services Foundation (ESF) and Country Fire Authority (CFA). In our health community, we partner with Eastern Health, Northern Health, Mercy Health, Royal Melbourne Hospital, Western Health and Bendigo Health Foundation.

Our support is more than just financial. We offer staff two paid days per year to volunteer with a partner organisation. We offer assistance any way we can by organising fundraising barbeques, lending volunteers and even our monthly office gatherings are used to raise awareness and funds for our partner organisations.

Board of Directors

1. Marianne Luttick

CHAIR

DipCompanyDirectorship, GAICD, Advanced Diploma of Public Safety (Investigation), FIML

Marianne was elected to the Board in 2011, served as Deputy Chair in 2018 and was appointed Chair in November 2018. She started her career at Victoria Police in 2002 after 15 years as Managing Director of her own accounting business. She currently serves as a Detective Sergeant with the Crime Command of Victoria Police.

Marianne is Chair of the Nominations Committee, a member of the Remuneration, People and Culture Committee and a member of the Digital Transformation and Cyber Committee.

2. Steven Coulson

DEPUTY CHAIR

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

Steven was elected to the Board in 2013 and appointed Deputy Chair in November 2018. He holds a Bachelor of Commerce (majoring in Accounting and Commercial Law) and is a Certified Practising Accountant (Fellow) and Certified Fraud Examiner. Steven is currently Manager of Forensic Accounting Unit, Crime Command at Victoria Police. He has held senior management positions with the Australian Taxation Office, Department of Justice and Regulation, EY and Victoria Police.

Steven also serves as a current Director for Little Athletics Victoria and the Association of Certified Fraud Examiners (Victoria).

Steven is a member of the Audit Committee and of the Digital Transformation and Cyber Committee.

3. Michael Liu

DIRECTOR

Bachelor of Laws (Honours) and Bachelor of Commerce (University of Melbourne)

Michael was appointed to the Board in November 2018. Michael has over 20 years of financial services experience, including governance, risk and board experience. He is currently the Managing Director and Head of Asia Pacific at WorldRemit. He is also an Independent Director on the Board of WCM Global Growth (WQG – ASX listed), where he is Chair of the Audit and Risk Committee. Michael was formerly on the Board of Affinity Private and held senior executive positions at UBS Investment Bank and Macquarie Bank, having commenced his career as a lawyer at Allens Arthur Robinson.

Michael is the Chair of the Audit Committee, and a member of the Risk Committee.

4. Lucinda Nolan APM

DIRECTOR

Master of Arts, Bachelor of Arts (Hons), Grad Dip PSM, Advanced Management Program (Harvard University), GAICD

Lucinda has over 30 years' experience in the emergency services sector and has served as Deputy Commissioner with Victoria Police and CEO of the Country Fire Authority. Lucinda is currently CEO of the Ovarian Cancer Research Foundation and is also a Director on the Board of the Hawthorn Football Club, a Director on the Board of the Pennington Institute and a Director of the Alkira Institute. She was elected to the BankVic Board in 2016.

Lucinda is the Chair of the Corporate Governance Committee and a member of the Audit Committee.

5. Faith Page

DIRECTOR

Bachelor of Science (Economics and Computer Science), GAICD, CGEIT, CISA

Faith is a highly experienced senior executive who brings over 25 years of proficiency in the banking sector with expertise in technology, information security, cyber risk management, audit and regulatory compliance, and digital transformation. She was previously a partner at EY for 16 years in the Risk Advisory practice, and formerly a partner at Deloitte, advising boards and audit and risk committees on operational IT security, and cyber risks and controls.

Faith is currently also a member of the Central Gippsland Health Board (and a member of the Risk and Audit Committee), member of the West Gippsland Regional Library Corporation Board (also a member of the Remuneration Committee) and a member of the AICD Gippsland Committee.

Faith is the Chair of the Digital Transformation and Cyber Committee, a member of the Risk Committee, and a member of the Remuneration, People and Culture Committee.

6. Adrian White

DIRECTOR

DipTrain, GradCertAppliedManagement, GAICD, FIML

Adrian was elected to the Board in 2011 and was Deputy Chair in 2017. He has been a member of Victoria Police for 40 years. Adrian's police service has included deployments to the National Crime Authority and Australian Crime Commission, and he holds a Graduate Certificate in Applied Management and Diploma of Workplace Training and Assessment Systems.

Adrian is the Chair of the Remuneration, People and Culture Committee, and a member of the Corporate Governance Committee.

7. Debra Robertson APM

DIRECTOR

Advanced Diploma of Public Safety (Investigation), GAICD, CF

Debra was elected to the Board in 2017. She is a Superintendent at Victoria Police with over 36 years' experience across operational policing and strategic projects. Debra holds an Advanced Diploma of Public Safety and Police Investigation, an Advanced Certificate in Management, and postgraduate qualifications in Gender and Policing. She served two years as the Vice President of The Police Association Victoria (TPAV), was a previous Director of the Police Federation Australia (PFA), and was a recipient of a Churchill Fellowship in 2017.

Debra is the Chair of the Risk Committee, and a member of the Corporate Governance Committee.

Auditors

KPMG

Tower Two, 727 Collins Street,
Melbourne, 3008

Solicitors

Wisewould Mahony

8/419 Collins Street,
Melbourne 3000

Banker

Westpac Banking Corporation

Affiliations

Indue Ltd

Board membership is as at 30 June 2019.

Committee memberships throughout FY19 is stated on pages 17 to 20.

Mr D Boell and Mr W Taylor were Directors until 23 November 2018.

Executive Team

1. Anthony De Fazio

CHIEF EXECUTIVE OFFICER

B.Com, CPA

Anthony has been in the role of Chief Executive Officer since April 2018, having joined BankVic in January 2017 as Chief Financial Officer.

A Finance Executive with over 20 years experience in the finance, superannuation and investment sectors, Anthony has provided leadership and strategic direction across multiple functions including Finance, Investment, Business Intelligence, Operations and Technology.

Anthony has significant experience in identifying key insights and communicating what this means for the business, clearly and simply. Anthony's commitment and passion lies in ensuring the member is at the forefront of all that we do.

2. 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.

3. 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.

4. Deirdre Boyle

CHIEF PRODUCT AND MARKETING OFFICER

BCA, GDCOMR, BMUS

Deirdre joined BankVic in March 2019 and is responsible for BankVic's member experience strategy, digital, product and marketing innovation.

Deirdre brings more than 15 years experience in banking and insurance, leading product, digital, customer experience, marketing strategy and execution for some of Australia's most recognised brands.

Deirdre holds a Bachelor of Commerce & Administration, a Graduate Diploma in Information Systems and a Bachelor of Music.

5. Andrew Carman

CHIEF FINANCIAL OFFICER

B.Bus, CPA

Andrew 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.

6. 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.

7. 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.

8. Mark Smyth

CHIEF LENDING OFFICER

GradCertBA (Exec), Dip Bus

Mark joined BankVic in May 2019, and is responsible for the management of BankVic's Lending origination and Branch operations.

Mark brings more than 20 years experience in retail and commercial banking, working across consumer and commercial lending, member experience and strategy design, general insurance, credit risk management, operations and collections

Mark holds an Executive Graduate Certificate in Business Administration (Executive) and a Diploma of Business (Frontline Management).

He is also a Non-Executive Director and Chairperson for the Indigenous Education Foundation (IEF), which aims to prevent long-term poverty among displaced Indigenous peoples by empowering their development of educational solutions based around preserving and harnessing cultural knowledge, customs, and local environment.

9. Rosemary Boissezon

CHIEF SALES OFFICER

GradDip-Bkg&Fin, SA Fin

Rosemary joined BankVic in May 2014 and resigned in July 2019. She was 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 represented BankVic in the 'Wall to Wall Ride for Remembrance' charity event for Police Legacy.

Corporate Governance Statement

Corporate Governance Structure

As an Australian company registered under the *Corporations Act 2001 (Cth)* 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.

We have a continual focus on good governance, financial strength and security. We will continue to comply with the Corporations Act, the Prudential Standards prescribed by APRA and all other legal and ethical obligations relevant to our bank.

Our Board of seven non-executive directors are independent with the majority being elected by our members. Following changes to the BankVic Constitution in 2017, a small number of directors are appointed by the Board, to ensure the Board collectively has the full range of skills and experience required.

Each director candidate is assessed for fitness and propriety to be a director of BankVic, against 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 BankVic's business. The Board Renewal Policy ensures 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 current 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 BankVic'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 this 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 whole and of each Board Committee;
- ensuring there are adequate plans and procedures for succession planning;
- identifying and monitoring the principal business and prudential risks of BankVic;
- 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 the Chief Executive Officer and Executive 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 Executives against agreed objectives and key performance criteria.

Board Committees

To assist the Board in fulfilling its responsibilities, the Board currently has six committees:

- Audit Committee
- Risk Committee
- Corporate Governance Committee
- Remuneration, People and Culture Committee
- Digital Transformation and Cyber Committee, and
- Nominations Committee.

Audit Committee

Chair Adrian J. White until 28 November 2018; Michael Liu from 28 November 2018.

Members Debra L. Robertson until 28 November 2018, Lucinda J. Nolan from 28 November 2018; Steven J. Coulson from 25 November 2014.

The principal responsibilities of the Audit Committee are to:

- oversee and appraise the quality of the audits conducted by the Company's external auditor and internal auditor;
- maintain by scheduling regular meetings, open lines of communication among the directors, the internal auditor 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 internal audit and other policies as required.

Risk Committee

Chair David R. Boell until 23 November 2018; Debra Robertson from 28 November 2018.
Members Lucinda J. Nolan from 28 March 2018 until 28 November 2018; Michael Liu from 28 November 2018; Faith Page from 28 November 2018; Adrian White until 28 November 2018; Marianne Luttick until 28 November 2018.

The principal responsibilities of the Risk Committee are to:

- maintain the risk appetite statement as defined by the Board;
- approve the risk management strategy;
- overview the major policies relevant to the risk management framework; and
- monitor and review all material key risk areas across all key financial and non-financial risk: including credit risk, market risk, liquidity risk, operational risk (including digital and cyber risks), strategic risk, compliance risk, reputational risk and other risk, including risks associated with conduct, culture and other non-financial factors.

Corporate Governance Committee

Chair Lucinda Nolan from 19 December 2017.
Members David R. Boell until 23 November 2018, Debra L. Robertson from 27 March 2018; Adrian White from 28 November 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, People and Culture Committee

(formerly Remuneration and Transformation Committee until 28 November 2018).
Chair Steven J. Coulson until 28 November 2018; Adrian White from 28 November 2018.
Members Wayne G. Taylor until 23 November 2018; Steven Coulson until 28 November; Marianne Luttick from 28 February 2018; Faith Page from 28 November 2018.

The key responsibilities of the Remuneration, People and Culture Committee are:

- recommend the remuneration of the Chief Executive Officer and executives;
- recommend to the Board the level of directors' remuneration (recommended to members for approval at each Annual General Meeting); and
- oversight the BankVic people and culture strategy.

In November 2017 the Board changed the scope of the former Remuneration Committee to include transformation project matters and changed its name to 'Remuneration and Transformation Committee'. In November 2018 the Board amended the remit of the Committee and removed 'transformation' from the Committee's remit. The Board established a standalone 'Digital, Transformation and Cyber Committee' and expanded the remit of the Remuneration Committee to the 'Remuneration, People and Culture Committee'.

Digital, Transformation and Cyber Committee

Chair Faith Page from 28 November 2018.
Members Marianne Luttick and Steven J. Coulson from 28 November 2018.

The key responsibilities of the Digital Transformation and Cyber Committee are to assist the Board in ensuring the delivery of BankVic's Digital Strategy, through:

- review of the Digital Strategy, products and services to ensure they remain relevant to BankVic's members and to the environment in which BankVic operates;
- oversight of the bank's prioritisation and funding of projects pertaining to delivery of the Digital strategy;
- monitoring the agreed program of work to deliver the Digital Strategy; and
- in conjunction with the Risk Committee, monitoring BankVic's Digital, Information Technology and Cyber risk profile.

Nominations Committee

Chair Wayne G. Taylor until 23 November 2018; Marianne Luttick from 28 November 2018.

Independent Advisors Paul Mulraney and Peter Crocker.

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 FY19 was Marianne Luttick, who was supported by two experienced and independent advisors.

The independent advisors for FY19 were Paul Mulraney, and Peter Crocker.

Directors' Report

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

Mr M Liu	10
Mr S Coulson	10
Mr A White	10
Ms M Luttick	10
Ms L Nolan	10
Ms D Robertson	10
Ms F Page	10

Directors' meetings

During the financial year, 10 meetings of Directors, 5 Corporate Governance Committee, 4 Audit Committee, 1 Remuneration and Transformation Committee, 1 Remuneration, People and Culture Committee, 4 Risk Committee, and 2 Digital Transformation and Cyber 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		Rem and Transformation Committee meetings		Remuneration, People and Culture Committee		Digital Transformation and Cyber Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Mr M Liu#	7	7	3	3	3	3	-	-	-	-	-	-	-	-
Mr D Boell*	3	3	1	1	-	-	2	2	-	-	-	-	-	-
Mr S Coulson	10	10	-	-	4	4	-	-	1	1	-	-	2	2
Mr W Taylor*	3	2	1	1	-	-	-	-	1	1	-	-	-	-
Mr A White	10	10	1	1	1	-	3	3	-	-	1	1	-	-
Ms M Luttick	10	10	1	1	-	-	-	-	1	1	1	1	2	2
Ms L Nolan	10	10	1	1	3	3	5	5	-	-	-	-	-	-
Ms D Robertson	10	10	3	3	1	1	5	5	-	-	-	-	-	-
Ms F Page#	7	7	3	3	-	-	-	-	-	-	1	1	2	2

Mr M Liu and Mrs F Page were Directors from 23 November 2018
* Mr D Boell and Mr W Taylor ceased as Directors from 23 November 2018

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 $11.3 million (2018: $12.6 million).

Review of operations

Growth

Over the past 12 months assets increased by 13.0%. Deposits increased by 16.0% reflecting continued member support. Loan demand continued in a historically low interest rate environment with gross loans increasing by 15.7%.

During the year membership grew 2.3% reflecting continuing interest for the products and services offered by BankVic and the success of new member campaigns.

Profitability

Profit for the year after income tax was $11.3 million, a decrease of 10.8% over the previous year. Total income for the year was $54.9 million, an increase of 5.3% over the previous year. Operating expenses for the year were $38.9 million, an increase of 13.4% compared to the previous year.

Capital adequacy

As a mutual financial institution, BankVic uses it's retained earnings as the major source of its capital. Therefore maintenance of adequate capital over time depends on balancing profit after tax with growth in risk-weighted assets.

Capital adequacy of risk-weighted assets in FY19 was 18.5% down from 19.7% in FY18. This remains significantly above the minimum level 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. Most notably, the launch of our Digital Wallet payment service provides members Apple Pay and Google Pay facilities.

The Everyday Account was launched in FY19, which is a new transaction account with reduced fees.

There was continued success with our first home buyer package. Over 10% of our home loan portfolio is first home buyer lending, and this is growing. We're also seeing over 20% of first home buyer loans are taken up by BankVic members who joined as children.

Our Branch staff, Relationship Managers, Mobile Lenders and Contact Centre staff continued to provide personalised, friendly service to our members.

Dividends

No dividends have been paid or declared since the end of the previous financial year (2018: Nil).

Share issues

The only shares issued by the Company during the year were 13,570 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 36,120 $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.

Environmental regulation

The Bank's operations are not subject to significant environmental regulation under both Commonwealth and State legislation in relation to its principal business and operating activities.

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 products and services to ensure our members' financial wellbeing and help them stay ahead at every life stage.

We will continue to build out our digital capability to provide ongoing improvements to our members' experience, and for our staff. This will include the introduction of innovative consumer payment technologies, a new website and a marketing automation platform. Open banking and supporting the Government's Consumer Data Rights legislation will be introduced, and we will continue with our core banking system upgrades.

Our dedication to our branches, building products that are right for our bonds and continuing to build our partnerships will remain important areas of focus.

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 24 and forms part of the Directors' report for the financial year ended 30 June 2019.

Signed this 24th day of September 2019, in accordance with a resolution of the Board of Directors.

Marianne Luttick
Chair

Steven Coulson
Deputy Chair

KPMG

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 2019 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

Dean Waters

Partner

Melbourne

24 September 2019

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

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Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Interest income	4a	**75,653**	67,811
Interest expense	4b	**(31,136)**	(26,430)
Net interest income		**44,517**	41,381
Other income	4c	**10,412**	10,798
Total income		**54,929**	52,179
Impairment losses on loans and advances (net of recoveries)	4d	**206**	(194)
Salaries and related expenses		**(18,747)**	(16,271)
Card and payment expenses		**(7,202)**	(6,924)
Other expenses	4e	**(13,132)**	(10,881)
Total expenses		**(38,875)**	(34,270)
Profit before income tax expense		**16,054**	17,909
Income tax expense	5	**(4,784)**	(5,272)
Profit for the period		**11,270**	12,637
Other comprehensive income		**-**	-
Total comprehensive income		**11,270**	12,637
Total comprehensive income available to members		**11,270**	12,637

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

Balance Sheet

As at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and Cash Equivalents	6	**53,457**	47,275
Receivables Due from Other Financial Institutions	7	**336,511**	332,466
Accrued Receivables and Other Assets	8	**2,799**	2,856
Loans and Advances (Net)	9	**1,664,567**	1,441,624
Investments	10	**2,225**	2,225
Property, Plant and Equipment	11	**1,704**	2,067
Intangible Assets	12	**–**	–
Deferred Tax Asset	5	**1,560**	1,804
TOTAL ASSETS		**2,062,823**	1,830,317
Liabilities			
Deposits	13	**1,850,261**	1,595,735
Payables	14	**10,669**	9,506
Borrowings	15	**13,159**	44,670
Current Tax Liability		**515**	237
Provisions	16	**2,583**	2,537
TOTAL LIABILITIES		**1,877,187**	1,652,685
NET ASSETS		**185,636**	177,632
Members' Funds			
Reserves		**21,998**	15,677
Redeemed Capital Reserve		**487**	451
Retained Earnings		**163,151**	161,504
TOTAL MEMBERS' FUNDS		**185,636**	177,632

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

Statement of Changes in Equity

As at 30 June 2019

	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 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
Balance as at 1 July 2018	**15,000**	**677**	**451**	**161,504**	**177,632**
Adjustment as at 1 July 2018 (AASB 9)	**-**	**6,033**	**-**	**(9,299)**	**(3,266)**
Increase in reserve during the year	**-**	**287**	**-**	**(287)**	**-**
Transfer from retained earnings	**-**	**-**	**36**	**(36)**	**-**
Profit or loss	**-**	**-**	**-**	**11,270**	**11,270**
Balance as at 30 June 2019	**15,000**	**6,997**	**487**	**163,152**	**185,636**

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 2019

	Note	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**75,872**	67,803
Interest paid		**(30,067)**	(25,822)
Other income received		**10,282**	10,512
Cash payments to suppliers and employees		**(38,517)**	(34,004)
Net (increase) in loans and advances		**(226,010)**	(136,895)
Net increase in deposits		**254,511**	180,662
Net decrease/(increase) in receivables due from other financial institutions		**(4,045)**	(39,856)
Income tax paid		**(4,263)**	(5,480)
Net increase/(decrease) in settlement accounts		**3,663**	3,229
Net increase/(decrease) in short term borrowings		**(35,174)**	845
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**6,252**	20,994
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**17**	69
Payments for property, plant and equipment		**(101)**	(192)
Net Cash outflow used in Investing Activities		**(84)**	(123)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase/(decrease) in member shares		**(14)**	(12)
Net Cash inflow provided by Financing Activities		**(14)**	(12)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**6,182**	20,859
Cash and cash equivalents at Beginning of Financial Year		**47,275**	26,416
Cash and cash equivalents at End of Financial Year	17(i)	**53,457**	47,275

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 2019

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 24 September 2019.

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

Except as noted 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.

The following standards have been adopted for the period ended 30 June 2019.

(i) AASB 9 Financial Instruments

Classification and measurement

AASB 9 has replaced 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) are 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 arises.

Upon adoption, there have been no changes in the classification of the Company's financial assets. Loans and advances are held to collect contractual cash flows solely from payments of principle and interest. Comparative periods generally have not been restated. Differences in carrying amounts of financial assets and financial liabilities resulting from adoption of AASB 9 are recognised in retained earnings at 1 July 2018.

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 recognises credit losses earlier and may also result in more sensitive provisioning levels depending on the economic cycle.

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.

AASB 9 replaces the incurred loss model with an expected loss model. The impairment requirements apply to financial assets measured at amortised cost and fair value.

Below is the financial impact of adopting AASB 9 Expected Credit Loss (ECL) requirements:

	AASB 9			AASB 139			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Collective $'000	Allowance $'000	GRCL $'000	Total Credit Provisions $'000
Balance as at 30 June 2018 under AASB 139	-	-	-	1,037	1,037	677	1,714
Change on initial application of AASB 9	2,407	21	1,873	(1,037)	3,264	6,033	9,297
Balance as at 1 July 2018	2,407	21	1,873	-	4,301	6,710	11,011
Movement during the year	(34)	(1)	(280)	-	(315)	287	(28)
Balance as at 30 June 2019	2,373	20	1,593	-	3,986	6,997	10,983

The Company applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk and includes forward-looking or macroeconomic level information. The ECL is the probability-weighted present value estimate of credit losses over the expected life of the portfolio. This is the product of Exposure at Default (EAD), Loss Given Default (LGD), and Probability of Default (PD) (adjusted by macroeconomic variables and scenarios).

The ECL methodology implemented by the Company requires the estimation of three scenarios: a base case, upside (representing favourable economic conditions) and a downside (representing unfavourable economic conditions). To achieve this methodology the Company will be required to estimate two sets of economic variables to be input into the ECL model. The minimum required economic variables are:

- Cash Rate
- Gross Domestic Product (GDP)

Sources which may be considered when determining the economic scenarios include:

- National government publications (e.g. Reserve Bank of Australia (RBA) forecasts and statistics);
- Economic forecasts as published by the local four major banks or other industry peers; and
- Other publicly available sources such as QBE or CoreLogic housing outlooks, Bloomberg, Trading Economics.

The ECL is determined with reference to the following stages:

Stage	Criteria	Impairment Calculation Approach
1	0-29 days in arrears	Expected losses over a 12 month period
2	30-89 days in arrears	Expected losses over life of loan - significant increase in credit risk
3	90+ days in arrears	Expected losses over life of loan and assume 100% probability of default

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

(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 and as a result there is no impact to the opening balance of the Company's equity at 1 July 2018.

a. Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses.

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 at Fair Value through Other Comprehensive Income (FVOCI) and categorised based on their contractual cash flows.

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.

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.

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 Impetus Funding Trust No. 1 was established in September 2012 for the purpose of creating a SPE for contingent liquidity purposes. A portion of the loan portfolio has been internally securitised specifically to create residential mortgage backed securities that are eligible for repurchase agreement (repo) with the Reserve Bank of Australia (RBA). These loans are treated as on balance sheet financial assets for reporting purposes. The terms of the transfer agreement is an equitable assignment to receive all the future income the mortgages generate but not a legal transfer of ownership.

In applying its policies on securitised financial assets, the Company has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Company over the other entity:

- When the Company, in substance, controls the entity to which financial assets have been transferred, the entity is included in these financial statements and the transferred assets are recognised in the Company's balance sheet.
- When the Company has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Company's balance sheet.

Securitised assets are included on the balance sheet of the Company, in accordance with this policy.

f. Derecognition of financial assets and liabilities

i Financial assets

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

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

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

ii Financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

g. Interest-bearing borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method with any difference between the costs and redemption value recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

h. 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.

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

i. 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.

j. 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.

k. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

l. 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.

m. 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 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.

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 recognised over time upon completion of performance obligation.

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.

n. 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.

o. Intangible assets

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

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.

p. 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).

q. 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.

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

r. 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.

s. New standard not yet adopted

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 the impact of adopting AASB 16 as at 1 July 2019 is an increase in assets (right-of-use asset) of approximately $6.2m and an increase in liabilities (lease liability) of approximately $6.2m.

	2019 $'000	2018 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**65,127**	58,925
Commercial Loans	**15**	17
Other Financial Institutions	**10,511**	8,869
Total Interest Income	**75,653**	67,811
b. Interest Expense		
Member Deposits	**30,579**	25,792
Short Term Borrowings	**557**	638
Total Interest Expense	**31,136**	26,430
c. Other Income		
Fees and Commissions	**6,619**	6,910
Insurance Commissions	**3,536**	3,369
Other Income	**245**	494
Profit/(Loss) on Sale of Property, Plant and Equipment	**12**	25
Total Other Income	**10,412**	10,798
d. Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**117**	63
Increase/(decrease) in Provision for Impairment	**(315)**	136
Bad Debts Recovered	**(8)**	(5)
Total Impairment losses on loans and advances (net of recoveries)	**(206)**	194

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

	2019 $'000	2018 $'000
Note 4: Profit (continued)		
e. Other Expenses		
Depreciation and amortisation	**405**	451
Amounts set aside to provide for employee entitlements	**691**	448
Administration costs	**2,859**	2,494
Motor vehicle running costs	**233**	174
Supervision levies	**167**	187
Professional services costs	**429**	389
Product and marketing costs	**1,683**	1,207
Information technology costs	**3,862**	2,942
Operating lease rentals	**1,183**	1,107
Occupancy costs	**577**	547
Directors' fees	**562**	480
Directors' severance benefits	**110**	127
Insurance – general	**144**	132
Other expenses	**227**	196
Total Other Expenses	**13,132**	10,881

	2019 $'000	2018 $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**4,559**	4,989
Under/(Over) provided in prior year	**(19)**	(20)
	4,540	4,969
Deferred tax expense		
Utilisation/(Recognition) of Temporary Differences	**244**	303
Total Income Tax Expense in Income Statement	**4,784**	5,272
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**16,054**	17,909
Income tax using the domestic corporation tax rate of 30% (2018: 30%)	**4,816**	5,373
Increase in income tax expense due to:		
- Non-deductible expenses	**3**	18
Decrease in income tax expense due to:		
- Non-assessable income	**(16)**	(99)
	4,803	5,292
Under/(Over) provided in prior year	**(19)**	(20)
Income tax expense on pre-tax profit	**4,784**	5,272

	Assets 2019 $'000	Assets 2018 $'000	Liabilities 2019 $'000	Liabilities 2018 $'000	Net 2019 $'000	Net 2018 $'000
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(217)**	(311)	**-**	-	**(217)**	(311)
Provision for Directors' Severance Benefits	**(71)**	(132)	**-**	-	**(71)**	(132)
Property, Plant and Equipment	**(46)**	(50)	**-**	-	**(46)**	(50)
Payables	**(522)**	(682)	**-**	-	**(522)**	(682)
Employee Entitlements	**(704)**	(629)	**-**	-	**(704)**	(629)
Net tax (assets)/liabilities	**(1,560)**	(1,804)	**-**	-	**(1,560)**	(1,804)

All movements recognised in the Profit and Loss.

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

	2019 $'000	2018 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**678**	817
Deposits at Call	**52,779**	46,458
	53,457	47,275
Note 7: Receivables due from other Financial Institutions		
Negotiable Certificates of Deposit	**83,729**	94,740
Floating Rate Notes *	**195,006**	182,950
Term Deposits	**57,776**	54,776
	336,511	332,466

*As at 30 June 2019 $Nil of FRNs have been subject to repurchase agreement (2018: $39.9m) Refer to note 3 (b).

	2019 $'000	2018 $'000
a. Maturity Analysis		
Up to 3 months	**78,647**	125,108
From 3 months to 1 year	**95,358**	51,058
From 1 year to 5 years	**162,506**	156,300
Later than 5 years	**-**	-
	336,511	332,466
b. Market Value		
Negotiable Certificates of Deposits, Floating Rate Notes and Term Deposits	**341,003**	332,039

In 2019, FRNs and Bank Term Deposits have an average maturity of 573 days (2018: 581 days) with effective interest rates of 1.32% to 3.33% (2018: 1.90% to 4.01%) p.a.

	2019 $'000	2018 $'000
Note 8: Accrued Receivables and Other Assets		
Interest receivable	**1,377**	1,595
Other	**1,422**	1,261
	2,799	2,856
Note 9: Loans and Advances		
Continuing credit facilities	**21,654**	20,914
Other loans and advances *	**1,646,356**	1,421,200
Directors and Director-related parties	**543**	547
	1,668,553	1,442,661
Provision for impairment	**(3,986)**	(1,037)
Net loans and advances	**1,664,567**	1,441,624

*As at 30 June 2019 $239m (2018: $218m) 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).

	2019 $'000 Gross loans	2018 $'000 Gross loans
Note 9: Loans and Advances (continued)		
a. Maturity analysis		
Up to 3 months	**39,213**	36,589
From 3 months to 1 year	**48,180**	43,489
From 1 year to 5 years	**264,138**	218,691
Later than 5 years	**1,317,022**	1,143,892
	1,668,553	1,442,661
b. Loans by security		
Secured by mortgage*	**1,614,449**	1,387,509
Secured other	**25,004**	27,815
Unsecured	**29,100**	27,337
	1,668,553	1,442,661
c. Loans by purpose		
Residential	**1,614,221**	1,387,158
Personal	**54,104**	55,152
Commercial	**228**	351
	1,668,553	1,442,661

*The loan to value of the collateral for loans secured by mortgage as at 30 June 2019 was 47.1% (2018: 47.4%).

Effective Interest Rate ranges for Loans and Advance is 3.1% - 12.95%

	2019 $'000	2018 $'000
d. Concentration of risk		
i. As at 30 June 2019 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	**601,347**	487,562
Health	**187,454**	159,087
iii. The geographic concentration of loans in the State of Victoria	**95.6%**	96%
e. Provision for Impairment of Loans and Advances		
Balance at beginning of the year	**1,037**	901
Opening balance adjustment required for AASB 9	**3,264**	-
Transfer from/(to) profit and loss account	**(315)**	136
Balance at the end of the year	**3,986**	1,037

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

2018 - AASB 139	Gross Loans	Collective Provisions
Secured by mortgage	1,387,509	(252)
Secured other	27,815	(85)
Unsecured	27,337	(700)
	1,442,661	(1,037)

f. Current Expected Credit Loss (ECL) Provision

	Gross Loans & Advances $'000	Provision Stage 1 (0-29 Days) $'000	Provision Stage 2 (30-89 Days) $'000	Provision Stage 3 (90+ Days)	Total Provisions $'000
2019					
Secured by mortgage	**1,614,449**	**1,417**	**12**	**777**	**2,206**
Secured other	**25,004**	**135**	**2**	**106**	**242**
Unsecured	**29,100**	**821**	**6**	**710**	**1,538**
	1,668,553	**2,373**	**20**	**1,593**	**3,986**

Interest forgone - 90+ days past due as at 30 June 2019 $67 (2018 $52)

	2019 $'000	2018 $'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 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 approximates the fair value.

	2019 $'000	2018 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	**2,336**	2,243
Less accumulated depreciation	**(977)**	(757)
	1,359	1,486
Plant and Office Equipment at cost	**4,199**	4,250
Less accumulated depreciation	**(3,854)**	(3,669)
	345	581
Capital Work in Progress	**-**	-
Total	**1,704**	2,067

	Leasehold Improvements $'000	Plant and Office Equipment $'000	Capital Work in Progress $'000	Total $'000
2019				
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment				
Balance at 1 July 2018	**1,486**	**581**	**-**	**2,067**
Additions	**93**	**8**	**-**	**101**
Transfers from Capital Work in Progress	**-**	**-**	**-**	**-**
Disposals	**-**	**(59)**	**-**	**(59)**
Depreciation expense	**(220)**	**(185)**	**-**	**(405)**
Carrying amount at 30 June 2019	**1,359**	**345**	**-**	**1,704**
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)

	2019 $'000	2018 $'000
Note 12: Intangible Assets – Software		
At cost	2,263	2,263
Accumulated amortisation	(2,263)	(2,263)
Net carrying amount	-	-
Carrying amount at the beginning of the year	-	51
Additions	-	-
Disposals	-	(44)
Amortisation expense	-	(7)
Carrying amount at the end of the year	-	-

Note 13: Deposits

	2019 $'000	2018 $'000
Call deposits	1,309,945	1,233,448
Term and at notice deposits	539,314	361,299
Redeemable preference shares	1,002	988
	1,850,261	1,595,735

Effective Interest Rate ranges for deposits is 0.0% - 4.5%

a. Maturity Analysis

Deposits are repayable over the following terms:

	2019 $'000	2018 $'000
On call	1,309,945	1,233,448
Up to 3 months	235,427	184,184
From 3 months to 6 months	146,440	78,439
From 6 months to 1 year	108,115	66,059
From 1 year to 5 years	49,332	32,617
No maturity	1,002	988
	1,850,261	1,595,735

b. Concentration of Risk

i. As at 30 June 2019 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:

	2019 $'000	2018 $'000
Victoria Police	260,742	232,500
Health	141,373	130,699
iii. The geographic concentration of deposits in the State of Victoria	87%	89%

	2019 $'000	2018 $'000
Note 14: Payables		
Accrued deposit interest	3,779	2,710
Creditors and accrued expenses	6,890	6,796
	10,669	9,506
Note 15: Borrowings		
Settlement Accounts	11,149	7,486
Repurchase Agreements	-	35,310
Other loans	2,010	1,874
	13,159	44,670
Maturity Analysis		
Borrowings will be repaid under current repayment conditions over the following periods:		
Up to 3 months	11,149	33,976
From 3 months to 1 year	-	8,820
From 1 year to 5 years	2,010	1,874
Later than 5 years	-	-
	13,159	44,670
Note 16: Provisions		
Employee Entitlements	2,346	2,096
Directors' Severance Benefits	237	441
	2,583	2,537

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 $0.9m (2018: $0.9m), non current $0.4m (2018: $0.3m).
- 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 2.00% per annum.
- Discounted using Commonwealth Government bond rates, which have maturity dates approximating the terms of the company obligations. Average rate of 1.19% p.a.

Annual Leave Current $1.0m (2018: $0.8m)

- 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.

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

	2019 $'000	2018 $'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	678	817
Deposits at call	52,779	46,458
	53,457	47,275
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit after income tax	11,270	12,637
Adjustments for:		
(Profit)/Loss on sale of non-current assets	(12)	(25)
Bad debts written off	117	63
Amounts set aside to provide for impairment	(315)	136
Depreciation and Amortisation	459	459
Net cash provided by operating activities before changes in working capital and provision	11,519	13,270
Decrease/(Increase) in deferred tax assets	244	304
(Increase)/Decrease in interest receivable	218	(9)
(Increase)/Decrease in other assets	(161)	(640)
Increase in interest payable	1,069	608
Increase in creditors and accrued expenses	94	55
(Decrease)/Increase in provision for employee entitlements	250	(41)
(Decrease)/Increase in taxes payable	277	(512)
Net (Decrease) in directors severance benefits	(204)	(26)
Net (Increase) in loans and advances	(226,010)	(136,895)
Net increase in deposits	254,512	180,662
(Increase) in receivables due from other financial institutions and investments	(4,045)	(39,856)
Net Increase/(Decrease) in settlement accounts	3,663	3,229
Net Increase/(Decrease) in short term borrowings	(35,174)	845
Net cash flows from operating activities	6,252	20,994

	2019 $'000	2018 $'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	**52,061**	43,017
Undrawn continuing line of credit commitments	**57,603**	56,930
Balance available for redraw under redraw facilities of term loans	**223,802**	205,982
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**1,719**	1,682
One year or later and no later than five years	**4,533**	5,973
iii. Capital expenditure commitments contracted for:		
Property, Plant and Equipment purchases due within one year	**-**	-

	2019 $	2018 $
Note 19: Auditors' Remuneration		
Auditors of the Company – KPMG Australia		
Audit of financial report	**119,570**	111,515
Other regulatory audit services	**100,765**	89,036
Taxation services	**23,531**	31,382
Consultancy Services	**3,900**	43,480
	247,766	275,413
Inclusive of GST		

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: W. G. Taylor (until 23 November 2018), D. R. Boell (until 23 November 2018), M. Luttick, A. J. White, S. J. Coulson, L. J. Nolan, D.L. Robertson, F Page (from 23 November 2018) and M Liu (from 23 November 2018).

b. Executives

The names of the persons who were Executives of the Company at any time during the financial year were as follows: A. De Fazio, Chief Executive Officer, R. Boissezon, Chief Sales Officer, S. Wall, Chief Information Officer, M. McLennan, Chief Risk Officer, A. Carman, Chief Financial Officer, P. Maroulis, Company Secretary, M. Arundel, Chief People and Culture Officer, D. Boyle, Chief Product and Marketing Officer (from 19 March 2019), M. Smyth, Chief Lending Officer (from 13 May 2019), G. Miller, Chief Technology Officer (until 31 August 2018), H. McGovern, Chief Product and Marketing Officer (until 27 September 2018).

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

Note 20: Key Management Personnel Disclosures continued

c. Transactions with key management personnel
In addition to their salaries, the Company also provides non-cash benefits to key management personnel, and contributes to post- benefit accumulation superannuation funds on their behalf.

d. Key management personnel compensation
The key management personnel compensation relating to employees is included in the 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:

	2019 $	2018 $
Directors' Fees	**562,041**	480,225
Directors' Severance Benefits	**110,062**	126,841
Short-term employee benefits – salaries/fees/non-monetary benefits	**3,031,870**	2,863,332
Other long-term benefits	**77,052**	34,110
Post-employment benefits – superannuation contributions	**181,223**	206,575
	3,962,248	3,711,083

e. Loans to key management personnel

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

Balance owing as at 30 June	**2,536,209**	1,459,838
Summary of Transactions		
New Advances	**1,688,000**	473,830
Repayments made during the year	**675,863**	4,485,589
Interest Received on loans to key management personnel	**68,738**	112,856

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, R. Boissezon, 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 2019 is $231,117 (2018: $440,734) and is presented in Note 16.

g. Other key management personnel transactions

There are no other transactions or contracts to which key management personnel are a related party.

Note 21: Financial Instruments

a. Interest rate risk

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

Financial Instruments	Floating Interest Rate	Fixed Rates 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 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	52,779	-	-	-	678	53,457
Receivables	-	-	-	-	1,377	1,377
Term Deposits	-	57,776	-	-	-	57,776
Certificates of Deposit	-	83,729	-	-	-	83,729
Floating Rate Notes	195,006	-	-	-	-	195,006
Loans and Advances - Gross*	1,461,694	58,074	148,379	406	-	1,668,553
Equity Investments	-	-	-	-	2,225	2,225
	1,709,479	199,579	148,379	406	4,280	2,062,123
ii. Financial liabilities						
Payables	-	-	-	-	10,669	10,669
Deposits	1,285,100	489,202	49,331	-	26,628	1,850,261
Borrowings	-	-	-	-	13,159	13,159
	1,285,100	489,202	49,331	-	50,456	1,874,089

Effective Interest Rate ranges for Financial Instruments excluding Loans and advances 0.0% - 3.32%
(Loans and advance is 3.1% - 12.95%)

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

Note 21: 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 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 - Gross*	1,287,180	26,216	129,265	-	-	1,442,661
Equity Investments	-	-	-	-	2,225	2,225
	1,333,638	202,382	285,565	-	5,898	1,827,483
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

*Comparative figures have been restated to align with the current year presentation

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. The company has a concentration to the Victorian Police and Health industries as disclosed in Note 9 and 13.

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 21: Financial Instruments (continued)

On Balance Sheet Financial Instruments	Total Carrying Amount as per Balance Sheet		Aggregate Net Fair Value	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
i. Financial assets				
Cash and liquid assets	**54,134**	47,275	**54,134**	47,275
Receivables	**1,377**	2,856	**1,377**	2,856
Term deposits	**57,776**	54,776	**58,186**	54,771
Certificates of deposit	**83,729**	94,740	**84,523**	94,776
Floating Rate Note	**195,006**	182,950	**196,572**	183,348
Loans and advances	**1,664,567**	1,441,624	**1,666,042**	1,441,884
Equity Investments	**2,225**	2,225	**2,225**	2,225
Total financial assets	**2,058,814**	1,826,446	**2,063,059**	1,827,135
ii. Financial liabilities				
Payables	**10,669**	9,506	**10,669**	9,506
Deposits	**1,850,261**	1,595,735	**1,851,892**	1,595,737
Borrowings	**13,159**	44,670	**13,159**	44,670
Total financial liabilities	**1,874,089**	1,649,911	**1,875,720**	1,649,913

Loans and advances and deposits are disclosed at fair value using level 3 inputs using internally developed interest rates as unobservable inputs. Interest rates are developed by using external rates plus margin.

All other financial assets are measured at amortised cost (except where otherwise stated), with fair value estimates at Level 1 or Level 2. There have been no reclassifications from level 1, 2 or 3 in the current year.

Note 22: Financial Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committees which are responsible for developing and monitoring risk management policies. The Audit and Risk Committees report regularly to the Board of Directors on their 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.

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

The Risk Committee oversee how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk Committee is assisted in its oversight role by the Company's internal auditors. The internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committees.

The Company has undertaken the following strategies to minimise the risks arising from financial instruments.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations as they become due. Credit risk arises principally from loans and advances to members, debt and investment securities which are key aspects of the Company's business.

The main policies which BankVic have to mitigate and manage credit risk are:

- Credit Risk Lending Policy
- Large Exposures Policy

The Credit Risk Lending Policy sets out the framework for the Company's lending practices including delegated credit approval limits.

The Large Exposures Policy sets out the Company's practices for dealing with and mitigating against large exposures in lending to members and investing with counterparties.

i. Credit risk – loans

The Company's exposure to credit risk is influenced mainly by the changes in credit quality and the recoverability of loans and amounts due from members and counterparties.

Adverse changes in credit quality and the recoverability of loans and the amounts due from members or a downturn in economic conditions may impact the value and recoverability of the Company's assets.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 9(b) describes the nature of the security held against the loans as at the balance date.

The Company has a concentration in retail lending to members who comprise employees in the police industry. These concentrations are 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.

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 2019, the Company had 18% of total liabilities as liquid assets and High Quality Liquid Assets (HQLA) ratio 15.5%. 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 2019

Financial Liabilities ($'000)	Carrying Amount	Contractual Cash Flow	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years
Deposits*	**1,850,261**	**1,855,980**	**1,416,494**	**208,488**	**180,085**	**50,913**	**-**
Trade and other payables	**13,045**	**13,045**	**13,045**	**-**	**-**	**-**	**-**
Borrowings	**2,010**	**2,010**	**2,010**	**-**	**-**	**-**	**-**
Total	**1,865,316**	**1,871,035**	**1,431,549**	**208,488**	**180,085**	**50,913**	**-**

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	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	-

* 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.

	2019 $'000	2018 $'000
1% increase	**4,521**	4,257
1% decrease	**(4,819)**	(4,473)

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 17.8% of risk weighted assets as at 30 June 2019. (30 June 2018: 19.6%)
- 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 0.7% of risk weighted assets as at 30 June 2019. (30 June 2018: 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 no material changes in the Company's management of capital during the year.

Note 23: Regulatory Capital Reconciliation

i. Tier 1 Capital	2019 $'000	2018 $'000
General Reserve	**15,000**	15,000
Redeemed Preference Share Capital Account	**487**	451
Retained Earnings	**163,151**	161,504
	178,638	176,955
Less Deduction's from Tier 1 Capital		
Deferred Tax Assets	**(1,560)**	(1,804)
Intangible Assets – Software	**-**	-
Equity Investment in Indue Ltd.	**(2,205)**	(2,205)
Equity Investment in SPP Pty Ltd	**(20)**	(20)
	(3,785)	(4,029)
Total Tier 1 Capital	**174,853**	172,926
ii. Tier 2 Capital		
General Reserve for Credit Losses	**6,998**	677
Total Tier 2 Capital	**6,998**	677
Total Regulatory Capital	**181,851**	173,603
iii. Capital Ratios		
Tier 1 Capital	**17.8%**	19.6%
Total Regulatory Capital	**18.5%**	19.7%
Reconciliation of Regulatory Capital to Balance Sheet		
Total Members Funds	**185,636**	177,632
Less Deductions from Tier 1 Capital	**(3,785)**	(4,029)
Total Regulatory Capital	**181,851**	173,603

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 24: 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 28 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 2019 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2 (a); and

c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 24th day of September 2019

Signed in accordance with a resolution of the Directors.

Marianne Luttick
Chair

Steven Coulson
Deputy Chair

KPMG

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 2019 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 2019;
- 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.

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 the 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

Dean Waters

Partner

Melbourne

24 September 2019