BankVic

For police, emergency
and health workers

Annual Report 2020.

Because you look after Victorians, we look after you.

Contents

Chair Message.

On behalf of the Board, I am pleased to present the 2020 Annual Report.

At BankVic, we strive to be the most trusted financial institution for Victoria Police, emergency and health workers and never has there been a better opportunity to demonstrate this to our members than in 2020.

In a year of bushfires, a global pandemic and community tragedy there is no question 2020 has been an extremely challenging year for our members, communities, and the Australian economy.

Many of our members have been at the heart of Victoria's response to the Victorian Bushfires, COVID-19 pandemic, and the tragic loss of the four Victoria Police officers who died in the line of duty. On behalf of the team at BankVic I sincerely thank you for your selfless dedication and ongoing commitment to keeping our community safe.

While our members responded on the frontline, we ensured that they remained at the heart of our response. We mobilised quickly to support directly impacted members, ensuring they have financial support in place, whilst still remaining focused on continuing to deliver on our strategic priorities. We will continue to evolve and build our capabilities to help our members achieve their financial ambitions simply and easily through relevant, competitive products and services and personal experiences.

Our communities have always been a vital part of BankVic and it has been wonderful to see the impact of our community program this year. We have provided education and research opportunities in health care, supported programs that build the relationship between youth and Police in the local community and worked alongside partners to help local communities get back on their feet after a disaster. To our community partners, thank you for the work you do.

Looking forward into the year ahead we know there are many unknowns. Our focus on sound governance practices and sustainable growth ensures BankVic remains well positioned to weather the challenges to come and to be able to continue to offer a genuine banking alternative to the police, emergency and health workers of Victoria.

I would like to acknowledge Director Luttick and Director White who will be stepping down from the board after 9 years. On behalf of the Board of Directors and BankVic, thank you for your contribution and commitment to BankVic during this time.

To our CEO, Anthony De Fazio, the executive team, and the extended BankVic team, thank you for another rewarding year only achievable by your ongoing dedication to our members and making BankVic a great place to work.

Finally, to our members, we exist to serve you. Thank you for your ongoing support, loyalty and allowing us to be part of your community.

Lucinda Nolan
Chair

CEO Message.

We began in 1974 to improve the financial wellbeing of Victoria Police members and their families. Nearly 50 years later, this purpose is stronger than ever, and we have extended our commitment to the health, emergency and public services community.

In 2020, the role our members have played in keeping the community safe has never been so important or appreciated. Our members have been impacted by the Victorian bushfires, COVID-19, and the tragic loss of four Victoria Police officers who died in the line of duty on 22 April 2020.

On behalf of BankVic, I would like to thank our members and partners for their ongoing dedication to serving our community. I would also like to thank our partners at Victoria Police Legacy and the Blue Ribbon Foundation for the work they do within the community, in what has been a particularly challenging year. We also thank our hospital partners and Ambulance Victoria for their tireless efforts in what has been a most difficult year.

With a capital ratio of 18.1% and liquidity of 21.6%, BankVic continues to be in a strong position and well placed to navigate the economic conditions ahead.

I am very pleased to share that we achieved 95% member satisfaction in our annual member survey. We remain focused on listening to our members' feedback and delivering new digital capability to make banking with us easier and faster, including the launch of a new BankVic website and a new mobile app. I am also excited to announce the opening of our new branch at the Victoria Police Centre at 311 Spencer Street. This branch will be opening in November 2020.

I would also like to take this opportunity to say how incredibly proud I am of the BankVic team. The way they have adapted to the challenges of 2020 and their unwavering commitment to our members during this time is something that I will never forget. To all at BankVic, I thank you.

Thank you to the BankVic Board for their support throughout the year. I would also like to mention retiring Directors, Marianne Luttick and Adrian White for their outstanding contribution during their nine year tenure on the Board.

Finally, thank you to our members for all your support and for your commitment to serving the community.

Anthony De Fazio
Chief Executive Officer

Financial Year 2020 Highlights.

115,455
Total members

47 Partner Events
47 partner events supported

$2.3 Billion
In assets

70% of members
receive electronic Communications

95%
Member satisfaction

$3.1 Million
Community donations
and sponsorships
since 2010

$395.5 Million
New home lending

26 clubs
26 Sporting and recreational
clubs supported

All numbers are current as at 30 June 2020.

Financial Highlights.

Loans ($'billion)

Deposits ($'billion)

Profit after tax ($'million)

Members funds' ($'million)

Members: at our heart.

BankVic began back in 1974 to provide banking services to Victoria Police members and their families. Nearly 50 years later, our more than 115,000 members are still at the heart of everything we do.

Serving our members.

Today, we are still committed to supporting the financial wellbeing of our members – through new digital banking services, education to improve financial understanding and creating awareness of the importance of personal banking security.

Responding to our member feedback

We were proud to continue our high level of member satisfaction, achieving 95% in our recent annual member satisfaction survey. It is great to see we are continuing to deliver the flexible, personal service BankVic is known for. We remained focused on listening to our members' feedback, particularly as it relates to communication and their digital experiences with BankVic. These are key areas of focus for us and we are looking forward to delivering significant improvements in these areas over the coming year.

Continuing to service our members when they need it

We know many of our members do not have 'normal' office hours and cannot always see us face to face. This year, we have increased our mobile banking team to ensure we can support our members at a time, and in a place, that is convenient to them. With restrictions due to COVID-19 we have launched new ways of connecting with our members remotely through video appointments.

During the year we made 778 site visits, supported 47 industry events and conducted over 1,500 home loan appointments.

Our members continue to embrace our digital banking services completing over 2 million transactions using digital wallet.

Supporting the financial wellbeing of our members

We continue to support or members financial wellbeing through the delivery of financial education programs. We delivered to our Police, Health and Emergency Services partners a series of seminars and webinars and launched our online Home Buyers Content Hub, helping our members learn more about the home buying journey.

Protecting paramedics in Victoria

In partnership with the Victorian Ambulance Union we introduced a new income protection product to ensure Victorian Paramedics are protected.

Supporting our members in need

This year has been a difficult year for our members who have been impacted by the Victorian bushfires and COVID-19.

The BankVic team came together to ensure that our members were supported with financial hardship options, health and wellbeing practices and other helpful information.

115,455
Total members

95%
Member satisfaction

Our people: being BankVic.

Our culture is shaped around our people's commitment towards 'being BankVic', where we respect and honour each other, our communities and those we serve every day.

Our people: being BankVic.

Diverse and inclusive workforce

We know when people from different backgrounds and with different points of view work together we can create value for our people, members, and communities. We have a commitment to a culture that embraces and fosters a diverse workforce and a culture of inclusion, where everyone is treated fairly and with respect.

In March, we recognised and celebrated International Women's Day and its theme #EachforEqual by hearing from four remarkable panellists on what equality means to them, progress made and how equality can evolve in society. Panellists included BankVic Board Chair Lucinda Nolan, Telstra Super Chair Anne-Marie Corboy, Ambulance Victoria Paramedic Michelle Crilly and BankVic Chief Product & Marketing Officer Deirdre Boyle, who shared powerful insights and experiences with the BankVic team.

We were pleased to report an even distribution of females and males in our leadership team, including at Board level when we lodged our annual public report on gender equality with the Equal Opportunities Commission under the Workplace Gender Equality Act. We were also pleased to support women in the workplace by introducing paid superannuation through the unpaid portion of primary carers leave.

Health, safety and wellbeing

BankVic's response to COVID-19 included the transition of the entire team, including our contact centre, to remote working arrangements. Our people's health and wellbeing have been paramount.

We continue to provide support through initiatives focused on mental health and connectivity.

Talent attraction and retention

We engage our people and develop their skills and experiences in a variety of ways.

This year we introduced our new employee recognition program, BeValued. BeValued thanks and recognises our people for their continued efforts in driving better outcomes for our members and our community. Created by BankVic team members, the program consists of monthly, quarterly and yearly awards, and recognises both individuals and teams.

L-R Michelle Crilly, Anne-Marie Corboy, Lucinda Nolan, Deirdre Boyle and Michelle Arundel (host).

Training and development

Our training and development improves the skills, knowledge, and performance of our people, leading to greater fulfillment and contribution, and a greater member experience.

We also focus on developing leadership capability across our current and future leaders. Members of our team have completed the Effective Leadership Training through the Australian Institute of Management and participation in a 360 feedback and coaching program.

Supporting our employees to contribute to the community

Our people are passionate about supporting our members, partners and the wider community. Each year, our people are entitled to two days of Volunteer Leave to use individually or with a team. We support community days and events such as The Royal Children's Hospital Good Friday Appeal, Blue Ribbon Day and Walk West.

> 9 Employees celebrated a milestone tenure of either 30, 20 or 15 years of service.

Community: stronger and safer.

For nearly 50 years, we have been proudly partnering with organisations that build and strengthen our community across Victoria.

Our Community.

We proudly partner with organisations that build and strengthen our community across Victoria. This year, we contributed over $427,000 in donations and sponsorships, which raised our total contributions to $3.1 million since 2010.

Fostering education opportunities in our communities

We have a longstanding commitment to supporting our members in developing their careers and contributing to the community through research and education grants. This year we were proud to support:

- The Dame Elisabeth Murdoch Nursing Development Scholarship with the Royal Children's Hospital
- The Western Health's Allied Health Award
- The Eastern Health Nursing Scholarship Award

Eastern Health Nursing Scholarship Award

In 2019 BankVic was the founding partner of the Eastern Health Staff Development Scholarship Program to award four outstanding nurses with a financial scholarship to undertake additional research or education to support their career, skills and knowledge.

Healthy, safer and inclusive communities

Supporting healthy communities:
BankVic recognises the link between financial wellbeing and mental health and is committed to continuing to work with our partners on delivering programs that support their communities, including the following:

- We continue to support the health and wellbeing of the policing community through our sports club grants and sponsorships, including the annual sports awards through the Victoria Police Amateur Sport & Welfare Society. This year we provided funding to over 26 sports and recreational clubs.

- We continue to support our health partners to invest in new research and technology to improve the experiences for health workers and patients in the Emergency Department. In partnership with Eastern Health, we are supporting research for those who present to the Emergency Department with mental health issues.

- We continue to support the Royal Melbourne Hospital (RMH) to purchase state of the art medication technology for its Emergency Department. The new technology aims to enhance RMH's Emergency Department model of care by ensuring patients receive timely treatment and care as part of their overall experience.

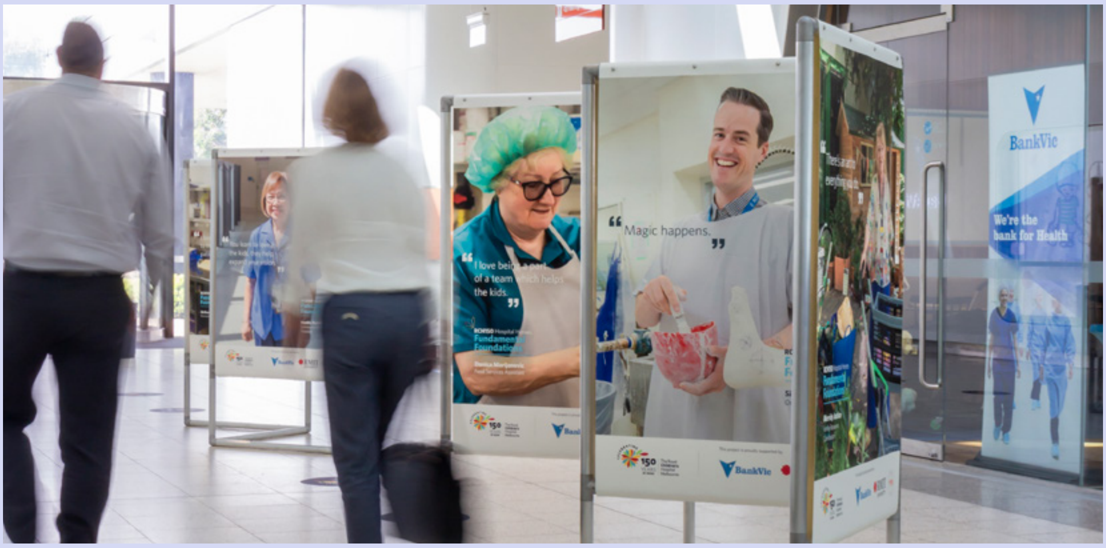
Building safer communities:
This year we were proud to support Blue Light Victoria's inaugural Respect the Badge program. The program seeks to strengthen the relationships between primary school children and Victoria Police.

Celebrating inclusive communities:
The Law Enforcement Torch Run (LETR) champions the acceptance and inclusion of people with intellectual disabilities. Since its formation in 2008 the Victorian LETR Program has raised over $434,000 for Special Olympics Victoria. BankVic is proud to be a platinum sponsor and active supporter in the Victorian LETR program.

Responding during disasters – bushfires and COVID-19

Throughout the summer bushfires and COVID-19 BankVic supported our members and their communities. We moved quickly to ensure our members knew where to turn for support and how to access our services.

We supported bushfire affected communities by working with Hawthorn Football Club to hold a practice match at the Morewell Recreation Reserve. A crowd of over 3,000 attended and helped raise money for impacted communities.



Celebrating Hospital Heroes

The Royal Children's Hospital (RCH) provides world-leading care to Victoria's children and young people. As a long term partner of RCH, we sponsored the Hospital Heroes Gallery as part of its 150th anniversary in 2020. The Hospital Heroes Gallery celebrated the 'unsung heroes' whose passion and dedication make RCH the world-leading institution it is today.

Victoria Police Legacy 40th Anniversary

We are honoured to partner with Victoria Police Legacy (VPL) and contribute towards their important work of supporting police families who have experienced the loss of a loved one. This year VPL celebrated its 40th anniversary, and as a partner who has been there from the beginning, we were proud to recognise this milestone with VPL in February 2020.

BankVic supported VPL following the tragic loss of four Victoria Police officers, Leading Senior Constable Lynette Taylor, Constable Glen Humphris, Senior Constable Kevin King and Constable Josh Prestney, who died in the line of duty on 22 April. Our heartfelt sympathies and thoughts remain with the families, friends, colleagues and the Victoria Police family.

Alongside VPL, BankVic also proudly supported a special edition of the CARE magazine that honoured the officers for their service.

Lex de Man from Victoria Police Legacy and Anthony De Fazio acknowledging our partnership for 2020.

Image courtesy of Hawthorn Football Club.

$3.1 Million

Community donations and sponsorships since 2010

47 Partner Events

47 partner events supported

Governance: strong and sustainable.

BankVic exists to strengthen the communities which we serve. We have a continual focus on strong corporate governance and financial sustainability for our members.

Board of Directors.

Lucinda Nolan APM CHAIR
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 of the Hawthorn Football Club, a Director of the Penington Institute and a Director of the Alkira Institute. She was elected to the BankVic Board in 2016. Lucinda is also Chair of the Nominations Committee and a member of the Audit Committee and the People, Remuneration & Culture Committee.

Steven Coulson DEPUTY CHAIR
GAICD, FCPA, FIML, CFE, BCom, Grad Dip Fraud Investigation, Dip Company Directorship

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 and Ernst & Young. Steven also serves as a Director for Little Athletics Victoria and the Association of Certified Fraud Examiners (Victoria). Steven is a member of the Corporate Governance Committee, the People, Remuneration & Culture Committee and the Nominations Committee.

Adrian White DIRECTOR
Dip Train, Grad Cert Applied Management, 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 Corporate Governance Committee and a member of the Risk Committee. Adrian retires this year, after almost 9 years of service as a BankVic Director.

Debra Robertson APM DIRECTOR
Advanced Diploma of Public Safety (Investigation), GAICD, CF
Debra was elected to the Board in 2017. She is a Commander in charge of Operations for Western Region at Victoria Police with over 37 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 also the President of Blue Light and sits on advisory boards for both RMIT and Latrobe University. Debra is the Chair of the Risk Committee and a member of the Corporate Governance Committee. Debra retires this year as required by BankVic's Constitution, having served three years as a Director, and has nominated for re-election as a Director.

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. Faith is currently a partner at BDO and was previously a partner at Ernst & Young 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 also a member of the Central Gippsland Health Board (and a member of the Risk and Audit Committee), and a member of the AICD Gippsland Committee. Faith is the Chair of the Digital Transformation & Cyber Committee and a member of both the Risk and Audit Committees.

Marianne Luttick DIRECTOR
Dip Company Directorship, GAICD, FIML, Advanced Diploma of Public Safety (Investigation)
Marianne was elected to the Board in 2011, served as Deputy Chair in 2018 and Chair in 2019. 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 People, Remuneration & Culture Committee and a member of the Digital Transformation & Cyber Committee. Marianne retires this year, after 9 years of service as a BankVic Director.

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 around 25 years of financial services experience, including governance, risk and board experience. He is currently a non-executive director on the Board of WCM Global Growth (WQG – ASX listed), where he is Chair of the Audit and Risk Committee. Michael is also a non-executive director on the Board of Foresters Financial, where he is Chair of the Investment Committee and a member of the Audit and Compliance Committee. Michael is also currently a Principal at 5i Capital, a venture capital firm specialising in cybersecurity investments and has previously held senior executive positions at UBS Investment Bank, Macquarie Bank and a global fintech headquartered in London, having commenced his career as a lawyer at Allens Arthur Robinson. Michael is the Chair of the Audit Committee and a member of the Digital Transformation & Cyber Committee and the Nominations Committee.

Auditors KPMG, Tower Two, 727 Collins Street, Melbourne, 3008
Board membership as at 30 June 2020. Committee membership is stated on pages 28 to 31.

Executive Team.

Anthony De Fazio
Chief Executive Officer
BCom, FCPA

Anthony has been BankVic's Chief Executive Officer since April 2018, having joined BankVic in January 2017 as Chief Financial Officer. A Financial Services Executive with over 25 years' experience in the banking, superannuation and investment sectors, Anthony has provided leadership and strategy across multiple functions including Finance, Investment, Business Intelligence, Operations and Technology.

Anthony is a Non-Executive Director of Indue Limited and Non-Member Director of Victoria Police Legacy.

Andrew Carman
Chief Financial Officer
BBus, 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 previously worked in senior finance and commercial positions across both corporate and government sectors.

Andrew is also a Non-Executive Director of the Emergency Services Foundation.

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 16 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. Deirdre is also a Board Member of the Victorian Blue Light Youth Camp.

Mark Smyth
Chief Growth & Experience Officer
Exec MBA, 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 a Master of Business Administration (Executive) and a Diploma of Business (Frontline Management).

Michael McLennan
Chief Risk Officer
BBus, FCPA
Michael joined BankVic in October 2016 and is responsible for BankVic's risk and compliance management function. Michael brings extensive experience in risk and financial management having previously held Chief Financial Officer and Chief Risk Officer roles within the Australian banking sector and senior roles internationally with Lloyds Banking Group in London.

Michelle Arundel
Chief People & Culture Officer
BBus, 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. Michelle is also a Board Member of Blue Light Victoria.

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.

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

Corporate Governance Statement.

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 member-owned mutual bank. We have a continual focus on good governance, financial strength and security.

Our Board, led by Chair, Lucinda Nolan, comprises five member-elected Directors and two non-member Directors appointed by the Board. Collectively, the Board has the full range of skills and experience required to direct and oversee BankVic's operations.

The Board strives to ensure that BankVic's reputation and business ethics are of the highest standard.

We regularly review our corporate governance structure to ensure appropriate development, prioritisation and delivery of BankVic's business strategies.

APRA, as the responsible regulator for BankVic, has prescribed prudential standards relating to the fitness and propriety of Directors and other responsible persons. These include an assessment of their character, integrity, judgement and their ability and capacity to perform the duties of a director of an ADI.

As such, all nominated candidates for the position of Director are required to undertake extensive reference and administrative checks.

Directors participate in ongoing professional development through formal training, information sessions on industry and regulatory developments and attendance at industry forums. New Directors must undertake the Australian Institute of Company Directors (AICD) company directors' course within a year of becoming a Director.

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.

The Board adheres to good governance principles, underpinned by 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 with BankVic's corporate and legal responsibilities 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
- 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 & Culture Committee
- Digital Transformation & Cyber Committee, and
- Nominations Committee.

Audit Committee

Chair Michael Liu

Members Lucinda Nolan and Faith Page

The principal responsibilities of the Audit Committee are to:

- oversee and appraise the quality of the audits conducted by the Company's external (KPMG) and internal (Ernst & Young) auditors
- maintain by scheduling regular meetings, open lines of communication among the Directors, the internal auditors and the external auditors to exchange views and information
- review the financial information presented to members and regulators
- determine the adequacy of the company's administrative, operating and internal financial controls; and
- review annually internal audit and other policies as required.

Risk Committee

Chair Debra Robertson

Members Adrian White and Faith Page

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 financial and non-financial risk areas, including credit risk, market risk, liquidity risk, operational risk (including digital and cyber risks), strategic risk, compliance risk and reputational risks.

Corporate Governance Committee

Chair Adrian White

Members Steven Coulson, Debra Robertson

The principal responsibilities of the Corporate Governance Committee are to:

- ensure that the Company's operations and business risks procedures fully comply with the legal obligations of the Company and good corporate governance principles
- determine applicable procedures to ensure the highest standards of ethical conduct
- oversee Prudential Standards relating to the fitness and propriety of Directors and responsible persons
- oversee the compliance of responsible managers with their statutory obligations; and
- make recommendations in relation to the foregoing to the Board for consideration and approval.

Remuneration, People & Culture Committee

Chair Marianne Luttick

Members Lucinda Nolan and Steven Coulson

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

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

Digital, Transformation & Cyber Committee

Chair Faith Page

Members Marianne Luttick and Michael Liu

The key responsibilities of the Digital Transformation & 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 Lucinda Nolan (ex officio)

Members Steven Coulson and Michael Liu

APRA prudential standards require BankVic to assess whether nominees for director are fit and proper persons to act as directors of the company. The fit and proper assessment includes investigations into nominees' character, competence, skills and experience relative to the requirements of the role.

The Nominations Committee meets with, and assesses, all nominees for a director position.

Directors' Report.

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

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

Directors' meetings

During the financial year the following number of meetings were held:

9 Board of Directors, 4 Corporate Governance Committee, 4 Audit Committee, 3 Digital, Transformation & Cyber Committee, 3 Remuneration, People & Culture Committee, 4 Risk Committee meetings and 1 Nominations Committee.

The number of meetings attended by each director was as follows:
A = Meetings held during Director's tenure B = Meetings attended.

Director	Board meetings		Risk Committee meetings		Audit Committee meetings		Corporate Governance Committee meetings		Rem, People and Culture Committee meetings		Digital, Transformation and Cyber Committee meetings		Nominations Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Ms L Nolan	9	8	-	-	3	3	2	2	1	1	-	-	-	-
Mr S Coulson	9	9	-	-	2	2	2	2	1	1	2	2	-	-
Mr M Liu	9	9	2	2	4	4	-	-	-	-	1	1	-	-
Ms M Luttick	9	8	-	-	-	-	-	-	3	3	3	3	1	1
Ms F Page	9	9	4	4	2	1	-	-	2	2	3	3	-	-
Ms D Robertson	9	8	4	4	-	-	4	4	-	-	-	-	-	-
Mr A White	9	9	2	2	-	-	4	4	2	2	-	-	-	-

Principal activities

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

Results of operations

Profit after tax of the Company for the financial year was $10.1 million (2019: $11.3 million).

Review of operations

Growth

Over the financial year 2020 new home lending growth increased by $396 million. This was supported by strong deposit growth of $181 million.

Since July 2019 the Reserve Bank of Australia reduced the official cash rate four times to a historical low cash rate of 0.25%. These changes have resulted in compressed lending margins, and this is expected to continue in the short to medium term.

During the year new memberships grew 4% reflecting continued support for the products and services offered by BankVic and the success of new member campaigns.

Profitability

Profit for the year after income tax was $10.1 million, a decrease of 10.6% over the previous year, reflecting lending margin pressure within the record low interest rate environment. Total income for the year was $56.1 million, an increase of 2.1% over the previous year. Operating expenses for the year were $42.1 million, an increase of 8.2% 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 financial year 2020 was 18.1% (18.5% in financial year 2019). This remains significantly above the minimum level required to be maintained as determined by the APRA Prudential Standards.

Dividends

No dividends have been paid or declared since the end of the previous financial year (2019: Nil).

Share issues

The only shares issued by the Company during the year were 32,640 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 31,110 $1 redeemable preference shares redeemed during the year.

State of affairs

During the 2020 financial year COVID-19 has disrupted financial and social environments. BankVic has managed this disruption by ensuring our capital and liquidity levels remain strong and resilient.

BankVic's Board and Executive Management brought forward its annual internal capital adequacy assessment process, including stress testing to ensure the bank is well positioned to manage through the expected and protracted impacts of COVID-19.

BankVic members are on the frontline responding to COVID-19, the affects of which have been disproportionately felt within the state of Victoria as Stage 4 restrictions continue.

As the majority of BankVic members are geographically located in Victoria, the sensitivity of these impacts are heightened. However as the majority of BankVic members are employed within the emergency services sector this mitigates some of BankVic's downside exposures.

BankVic has increased its support to members who have been impacted by the challenges of COVID-19.

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.

The potential impacts of COVID-19 cannot at this present time be reliably estimated. The BankVic Board and Executive Management continue to monitor the financial, economic and social impacts that may arise.

Likely developments

The Directors are not aware of any other likely developments in financial years subsequent to 30 June 2020 that may significantly affect the operation and expected results of the Company.

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, Company 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 34 and forms part of the Directors' report for the financial year ended 30 June 2020.

Signed this 22nd day of September 2020, in accordance with a resolution of the Board of Directors.

Lucinda Nolan
Chair

Steven Coulson
Deputy Chair

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

To the Directors of Police Financial Services Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Police Financial Services Limited for the financial year ended 30 June 2020 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

22 September 2020

Financial Statements.

Making banking better for those who make Victoria better.

Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Interest income	4a	**70,439**	75,653
Interest expense	4b	**(24,032)**	(31,136)
Net interest income		**46,407**	44,517
Other income	4c	**9,656**	10,412
Total income		**56,063**	54,929
Impairment losses on loans and advances, net of recoveries	4d	**(2,541)**	206
Salaries and related expenses		**(18,619)**	(18,747)
Card and payment expenses		**(7,730)**	(7,202)
Other expenses	4e	**(13,173)**	(13,132)
Total expenses		**(42,063)**	(38,875)
Profit before income tax expense		**14,000**	16,054
Income tax expense	5	**(3,915)**	(4,784)
Profit for the period		**10,085**	11,270
Other comprehensive income		**–**	-
Total comprehensive income		**10,085**	11,270
Total comprehensive income available to members		**10,085**	11,270

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

Balance Sheet

As at 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and Cash Equivalents	6	**94,436**	53,457
Receivables Due from Other Financial Institutions	7	**474,635**	336,511
Accrued Receivables and Other Assets	8	**2,935**	2,799
Loans and Advances (Net)	9	**1,726,580**	1,664,567
Investments	10	**2,205**	2,225
Property, Plant and Equipment	11	**5,259**	1,704
Intangible Assets	12	**212**	–
Deferred Tax Asset	5	**1,763**	1,560
TOTAL ASSETS		**2,308,025**	2,062,823
Liabilities			
Deposits	13	**2,030,854**	1,850,261
Payables and Other Liabilities	14	**9,202**	10,669
Borrowings	15	**69,241**	13,159
Current Tax Liability		**299**	515
Provisions	16	**2,708**	2,583
TOTAL LIABILITIES		**2,112,304**	1,877,187
NET ASSETS		**195,721**	185,636
Members' Funds			
Reserves		**21,577**	21,998
Redeemed Capital Reserve		**518**	487
Retained Earnings		**173,626**	163,151
TOTAL MEMBERS' FUNDS		**195,721**	185,636

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

Statement of Changes in Equity

As at 30 June 2020

	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 2018	15,000	677	451	161,504	177,632
Adjustment as at 1 July 2018 (AASB 9)	-	6,033	-	(9,299)	(3,266)
Change 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
Balance as at 1 July 2019	**15,000**	**6,997**	**487**	**163,152**	**185,636**
Change in reserve during the year	**-**	**(420)**	**-**	**420**	**-**
Transfer from retained earnings	**-**	**-**	**31**	**(31)**	**-**
Profit or loss	**-**	**-**	**-**	**10,085**	**10,085**
Balance as at 30 June 2020	**15,000**	**6,577**	**518**	**173,625**	**195,721**

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 2020

	Note	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**70,624**	75,872
Interest paid		**(25,470)**	(30,067)
Other income received		**10,075**	10,282
Cash payments to suppliers and employees		**(45,070)**	(38,517)
Net increase in loans and advances		**(64,559)**	(226,010)
Net increase in deposits		**180,576**	254,511
Net increase in receivables due from other financial institutions		**(138,104)**	(4,045)
Income tax paid		**(4,333)**	(4,263)
Net decrease in settlement accounts		**(4,578)**	3,663
Net increase in borrowings		**60,660**	(35,174)
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**39,821**	6,252
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property, plant and equipment		**9**	17
Payments for property, plant and equipment		**(239)**	(101)
Net Cash outflow used in Investing Activities		**(230)**	(84)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase/(decrease) in member shares		**17**	(14)
Payment of lease liabilities		**1,371**	-
Net Cash inflow provided by Financing Activities		**1,388**	(14)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**40,979**	6,182
Cash and cash equivalents at Beginning of Financial Year		**53,457**	47,275
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	17(i)	**94,436**	53,457

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 2020

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 Consolidated Company also complies with the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. The consolidated financial position and performance are equal to the Parent, except for Cash (refer to Note 24).

The financial statements were authorised for issue by the Directors on 22nd September 2020.

b. Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for investments, which are stated at fair value.

This is the first set of the Companys' annual financial statements in which AASB 16 Leases has been applied. The related changes to significant accounting policies are described in Note 3.

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 – Provision for Impairment of loans and advances
- Note 11 – Property, Plant and Equipment (including Right of Use Assets)
- Note 16 – Provisions
- Note 21 – Financial Instruments

3. Significant Accounting Policies

The following standards have been adopted for the period ended 30 June 2020.

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.

Previously, the Company classified property leases as operating leases under AASB 117. On transition to AASB 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Companys' incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at either:

- the carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Companys' incremental borrowing rate at the date of initial application: the Company applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

“At adoption, the following accounting policies are applied:

i. As a lessor

When the Company leases out its certain property assets, the Company has classified these leases as operating leases. The Company is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor, except for a sub-lease.

When the Company sub-leases some of its properties. Under AASB 117, the head lease and sub-lease contracts were classified as operating leases. On transition to AASB 16, the right-of-use assets recognised from the head leases are presented in investment property, and measured at fair value at that date. The Company assesses the classification of the sub-lease contracts with reference to the right of- use asset rather than the underlying asset, and concluded that they are operating leases under AASB 16.

ii. Extension options

Some property leases contain extension options exercisable by the Company up to a number of years before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

On transition to AASB 16, the Company recognised additional right-of-use assets of $5.4m and lease liabilities of $5.6m using the modified retrospective approach with no impact to retained earnings.

a. Property, Plant and Equipment

Items of Property, Plant and Equipment are stated at cost less accumulated depreciation 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 (including Right of Use Assets): 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. Non-derivative financial instrument

i. Recognition and initial measurement

The Company initially recognises loan receivables and deposits on the date that they originate. All other financial assets (including assets designated at fair value through the profit or loss) and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable with a significant financing component) or financial liability is initially measured at fair value plus, for an item not fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification of financial assets

On initial recognition, the Company classifies its non-derivative financial assets except investment in equity securities, as measured at amortised cost. Investment in equity securities are measurement at fair value through other comprehensive Income (FVOCI).

A financial asset is classified as measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held in a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates on cash flows that are solely payment of principal and interest (SPPI) on principal outstanding.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

Financial assets at amortised cost are subsequently measured at amortised cost using effective interest rate method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and any impairment charge are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

iii. Classification of financial liabilities

Financial liabilities are classified as measured at amortised cost on initial recognition. Subsequently, these are measured at amortised cost using effective interest rate method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gains and losses on derecognition are also recognised in profit or loss.

c. 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 designated as FVOCI.

Subsequent to initial recognition, they are measured at fair value with changes therein recognised directly in equity. When an investment is de-recognised, the cumulative gain or loss in equity is transferred from equity to the retained earnings.

Investments in debt securities are classified at amortised cost as these are held to collect the contractual cash flows solely from payments of principal and interest. Subsequent to initial recognition, these are measured at amortised cost using the effective interest method and are assessed for impairment under the expected credit loss impairment model.

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.

d. Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short-term bills and call deposits, with maturities of less than three months and are measured at amortised cost using effective interest rate method. Cash equivalents are readily convertible to cash and are subject to an insignificant risk of change in value.

f. 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 as these are held to collect contractual cash flows solely from payments of principal and interest.

The Impetus Funding Trust No. 1 was established in September 2012 for the purpose of creating a Special Purpose Entity (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; and
- 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.

g. Impairment

i. Financial assets

An expected credit loss impairment model is applied to all the Companys' financial assets, except for those which are FVPL, and equity securities designated as at FVOCI, which are not subject to impairment assessment. The Companys' expected credit loss model recognises credit losses earlier and may also result in more sensitive provisioning levels depending on the economic cycle - refer Note 22.

ii. Non-financial assets

The carrying amount of the Companys' assets, other than deferred tax assets 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.

h. 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.

i. Modified financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine whether the cash flows of the modified asset are substantially different. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date.

Where a modification is considered non-substantial, the existing financial asset is not derecognised. In this case, the gross carrying value of the financial asset is recalculated and the amount arising from adjusting the carrying amount is recognised as modification gain or loss.

j. 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.

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

k. 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 oncosts 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 oncosts, 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.

l. 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.

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

m. 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.

n. 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 (RSA) tax plus expected tax payable on the taxable income for the year 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.

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.

o. 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. 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 is included as a current asset or liability in the Balance Sheet.

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

ii. All other operating expenses

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

p. Revenue

AASB 15 established a comprehensive framework for determining whether, how much, and when revenue is recognised. Revenue is recognised when the performance obligations have been satisfied 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, in accordance with AASB 9. 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 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 accrued 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.

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

q. Expenses

i. Interest expense

r. Intangible assets

Intangible assets, which consist of computer software, are stated at cost less accumulated amortisation 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.

s. Redeemed capital reserve

Redeemed capital reserve represents the amount of redeemable preference shares redeemed since 1 July 1999. *The Corporations Act 2001 (Cth)* requires redemption of shares to be made out of profits. The value of the shares redeemed has been paid to members in accordance with the Constitution of the Company.

t. Leases

AASB 16 introduced 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 adopted AASB 16 as at 1 July 2019.

- Prior to adoption on 1 July 2019, the following accounting policies are applied:

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.

u. New standard not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2020 and earlier application is permitted however, the Company has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Companys' consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts

	2020 $'000	2019 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**62,546**	65,127
Commercial Loans	**12**	15
Other Financial Institutions	**7,881**	10,511
Total Interest Income	**70,439**	75,653
b. Interest Expense		
Member Deposits	**23,755**	30,579
Borrowings	**277**	557
Total Interest Expense	**24,032**	31,136
c. Other Income		
Fees and Commissions	**6,191**	6,619
Insurance Commissions	**3,452**	3,536
Other Income	**4**	245
Profit on Sale of Property, Plant and Equipment	**9**	12
Total Other Income	**9,656**	10,412
d. Impairment Losses on Loans and Advances		
Bad debts written off: Member Loans and Advances	**42**	117
Change in Provision for Impairment	**2,504**	(315)
Bad Debts Recovered	**(5)**	(8)
Total Impairment losses on loans and advances, net of recoveries	**2,541**	(206)
e. Other Expenses		
Depreciation	**1,952**	405
Employee entitlements	**814**	691
Administration costs	**2,698**	2,859
Motor vehicle running costs	**237**	233
Supervision levies	**276**	167
Professional services costs	**409**	429
Product and marketing costs	**1,606**	1,683
Information technology costs	**3,835**	3,862
Operating lease rentals	**-**	1,183
Occupancy costs	**593**	577
Directors' fees	**608**	562
Directors' severance benefits	**(237)**	110
Insurance – general	**158**	144
Other expenses	**224**	227
Total Other Expenses	**13,173**	13,132

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

	2020 $'000	2019 $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense		
Current Year	**4,148**	4,559
Under/(Over) provided in prior year	**(29)**	(19)
	4,119	4,540
Deferred tax expense		
Utilisation/(Recognition) of Temporary Differences	**(204)**	244
Total Income Tax Expense in Income Statement	**3,915**	4,784
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**14,000**	16,054
Income tax using the domestic corporation tax rate of 30% (2019: 30%)	**4,200**	4,816
Increase in income tax expense due to:		
- Non-deductible expenses	**2**	3
Decrease in income tax expense due to:		
- Non-assessable income	**(258)**	(16)
	3,944	4,803
Under/(Over) provided in prior year	**(29)**	(19)
Income tax expense on pre-tax profit	**3,915**	4,784

	Assets 2020 $'000	Assets 2019 $'000	Liabilities 2020 $'000	Liabilities 2019 $'000	Net 2020 $'000	Net 2019 $'000
Recognised deferred tax assets and liabilities						
Deferred tax (assets) and liabilities are attributable to the following:						
Provision for Impairment	**(968)**	(217)	**-**	-	**(968)**	(217)
Provision for Directors' Severance Benefits	**-**	(71)	**-**	-	**-**	(71)
Lease liability	**(55)**	-	**-**	-	**(55)**	-
Property, Plant and Equipment	**(34)**	(46)	**-**	-	**(34)**	(46)
Payables	**-**	(522)	**106**	-	**106**	(522)
Employee Entitlements	**(812)**	(704)	**-**	-	**(812)**	(704)
Net tax (assets)/liabilities	**(1,869)**	(1,560)	**106**	-	**(1,763)**	(1,560)

All movements recognised in the Profit and Loss.

	2020 $'000	2019 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**694**	678
Deposits at Call	**93,742**	52,779
	94,436	53,457

	2020 $'000	2019 $'000
Note 7: Receivables due from other Financial Institutions		
Negotiable Certificates of Deposit	**127,959**	83,729
Floating Rate Notes *	**250,000**	195,006
Term Deposits	**74,576**	57,776
Fixed Rate Bonds	**22,100**	-
	474,635	336,511

*As at 30 June 2020 $10m of FRNs have been subject to repurchase agreement (2019: $nil) Refer to note 3 (c).

	2020 $'000	2019 $'000
a. Maturity Analysis		
Up to 3 months	**97,815**	78,647
From 3 months to 1 year	**131,720**	95,358
From 1 year to 5 years	**245,100**	162,506
Later than 5 years	**-**	-
	474,635	336,511
b. Market Value		
Negotiable Certificates of Deposits, Floating Rate Notes and Term Deposits	**477,272**	341,003

In 2020, FRNs and Bank Term Deposits have an average maturity of 690 days (2019: 573 days) with effective interest rates of 0.12% to 2.15% (2019: 1.32% to 3.33%) p.a.

	2020 $'000	2019 $'000
Note 8: Accrued Receivables and Other Assets		
Interest receivable	**1,192**	1,377
Other	**1,742**	1,422
	2,934	2,799
Note 9: Loans and Advances		
Continuing credit facilities	**17,191**	21,654
Other loans and advances *	**1,715,344**	1,646,356
Directors and Director-related parties	**534**	543
	1,733,069	1,668,553
Provision for impairment	**(6,489)**	(3,986)
Net loans and advances	**1,726,580**	1,664,567

*As at 30 June 2020 $523m (2019: $239m) of loans have been internally securitised via the Impetus Funding Trust No. 1. These loans are treated as on balance sheet. Refer note 3 (f).

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

	2020 $'000 Gross loans	2019 $'000 Gross loans
Note 9: Loans and Advances (continued)		
a. Maturity analysis		
Up to 3 months	**36,883**	36,213
From 3 months to 1 year	**52,347**	48,180
From 1 year to 5 years	**268,531**	264,138
Later than 5 years	**1,375,308**	1,317,022
	1,733,069	1,668,553
b. Loans by security		
Secured by mortgage*	**1,688,642**	1,614,449
Secured other	**20,220**	25,004
Unsecured	**24,207**	29,100
	1,733,069	1,668,553
c. Loans by purpose		
Residential	**1,688,360**	1,614,221
Personal	**44,427**	54,104
Commercial	**282**	228
	1,733,069	1,668,553

*The loan to value of the collateral for loans secured by mortgage as at 30 June 2020 was 45.7% (2019: 47.1%).

Effective Interest Rate ranges for Loans and Advance is 2.17% - 16.95% (2019: 3.1% - 12.95%).

	2020 $'000	2019 $'000
d. Concentration of risk		
i. As at 30 June 2020 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	**660,177**	601,347
Health	**246,264**	187,454
iii. The geographic concentration of loans in the State of Victoria	**92.3%**	95.6%
e. Provision for Impairment of Loans and Advances		
Balance at beginning of the year	**3,986**	1,037
Opening balance adjustment required for AASB 9	**-**	3,264
Net change for the year	**2,503**	(315)
Balance at the end of the year	**6,489**	3,986

f. 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) $'000	Total Provisions $'000
2020					
Secured by mortgage	**1,688,642**	**2,354**	**325**	**1,650**	**4,329**
Secured other	**20,220**	**136**	**1**	**118**	**255**
Unsecured	**24,270**	**986**	**7**	**912**	**1,905**
	1,733,069	**3,476**	**333**	**2,680**	**6,489**
2019					
Secured by mortgage	1,614,499	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

Expected Credit Loss (ECL) Movement

	Provision Stage 1 (0-29 Days) $'000	Provision Stage 2 (30-89 Days) $'000	Provision Stage 3 (90+ Days) $'000	Total Provisions $'000
2020				
Balance as at 30 June 2019	**2,373**	**20**	**1,593**	**3,986**
Charge / (reversal) during the year	**1,103**	**313**	**1,087**	**2,503**
Closing as at 30 June 2020	**3,476**	**333**	**2,680**	**6,489**
2019				
Balance as at 1 July 2018	2,407	21	1,873	4,301
Charge / (reversal) during the year	(34)	(1)	(280)	(315)
Closing as at 30 June 2019	2,373	20	1,593	3,986

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

g. Gross Loans by Expected Credit Loss (ECL) Stage

	Gross Loans & Advances $'000	Stage 1 (0-29 Days) $'000	Stage 2 (30-89 Days) $'000	Stage 3 (90+ Days) $'000
2020				
Secured by mortgage	**1,688,642**	**1,677,561**	**2,710**	**8,371**
Secured other	**20,220**	**19,952**	**46**	**222**
Unsecured	**24,207**	**23,248**	**154**	**805**
	1,733,069	**1,720,761**	**2,910**	**9,398**

	Gross Loans & Advances $'000	Stage 1 (0-29 Days) $'000	Stage 2 (30-89 Days) $'000	Stage 3 (90+ Days) $'000
2019				
Secured by mortgage	1,614,449	1,604,991	2,674	6,784
Secured other	25,004	24,683	119	202
Unsecured	29,100	28,141	154	805
	1,668,553	1,657,815	2,947	7,791

	2020 $'000	2019 $'000
Note 10: Investments		
Shares in Indue Ltd	**2,205**	2,205
Shares in Shared Services Partners Pty Ltd	**-**	20
	2,205	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. This investment was written off during financial year 2020.

These equity investments are designated as measured at FVOCI since these are not held for trading.

	2020 $'000	2019 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	2,336	2,336
Less accumulated depreciation	(1,201)	(977)
	1,135	1,359
Right of Use (ROU) Asset	5,480	-
Less accumulated depreciations	(1,522)	-
	3,958	-
Plant and Office Equipment at cost	4,169	4,199
Less accumulated depreciation	(4,030)	(3,854)
	139	345
Capital Work in Progress	27	-
Total	5,259	1,704

	Right of use assets*	Leasehold Improvements $'000	Plant and Office Equipment $'000	Capital Work in Progress $'000	Total $'000
2020					
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment					
Balance at 1 July 2019	-	1,359	345	-	1,704
Additions	-	-	-	27	27
Recognition of ROU Asset (adoption of AASB 16)	5,480	-	-	-	5,480
Transfers from Capital Work in Progress	-	-	-	-	-
Disposals	-	-	(30)	-	(30)
Depreciation expense	(1,522)	(224)	(176)	-	(1,922)
Carrying amount at 30 June 2020	3,958	1,135	139	27	5,259

*There have been no additions or derecognition of right of use assets during the year. There are also no expense relating to short-term leases or low-value assets nor variable lease payments not included in the measurement of lease liabilities, income from subleasing right-of-use assets, and gains or losses arising from sale and leaseback transactions.

	Right of use assets*	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

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

	2020 $'000	2019 $'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	**-**	-
Additions	**212**	-
Disposals	**-**	-
Amortisation expense	**-**	-
Carrying amount at the end of the year	**212**	-
Note 13: Deposits		
Call deposits	**1,528,508**	1,309,945
Term and at notice deposits (Retail)	**384,516**	403,403
Term and at notice deposits (Wholesale)	**116,810**	135,911
Redeemable preference shares	**1,020**	1,002
	2,030,854	1,850,261

Effective Interest Rate ranges for deposits is 0% - 3.5% (2019: 0% - 4.5%)

a. Maturity Analysis		
Deposits are repayable over the following terms:		
On call	**1,529,528**	1,310,947
Up to 3 months	**170,308**	235,427
From 3 months to 6 months	**203,373**	146,440
From 6 months to 1 year	**97,714**	108,115
From 1 year to 5 years	**29,931**	49,332
	2,030,854	1,850,261
b. Concentration of Risk		
i. As at 30 June 2020 there was no member who individually held deposits which represents 10% or more of total liabilities		
ii. The customer or industry concentration of deposits which represented in aggregate 10% or more of total liabilities are:		
Victoria Police	**296,566**	260,742
Health	**219,439**	141,373
iii. The geographic concentration of deposits in the State of Victoria	**88%**	87%

	2020 $'000	2019 $'000
Note 14: Payables and Other Liabilities		
Accrued deposit interest	**2,341**	3,779
Creditors and accrued expenses	**2,557**	6,890
Lease liabilities (refer to Note 3t)*	**4,304**	-
	9,202	10,669

*Interest on lease liabilities is $31k and payments for lease liabilities is $1.37m during the year.

	2020 $'000	2019 $'000
Note 15: Borrowings		
Settlement Accounts	**6,571**	11,149
Repurchase Agreements*	**60,514**	-
Other loans	**2,156**	2,010
	69,241	13,159

*The Company utilised the RBA Term Funding Facility. The Term Funding Facility to Support Lending to Australian Businesses (TFF) was announced on 19 March 2020 as part of a package of measures to support the Australian economy. Under the TFF, the Reserve Bank will offer three-year funding to authorised deposit-taking institutions (ADIs) through repurchase transactions at a fixed pricing rate of 25 basis points per annum.

Maturity Analysis

Borrowings will be repaid under current repayment conditions over the following periods:

	2020 $'000	2019 $'000
Up to 3 months	**15,613**	11,149
From 3 months to 1 year	**2,156**	-
From 1 year to 5 years	**51,472**	2,010
Later than 5 years	**-**	-
	69,241	13,159

Changes in liabilities arising from financing activities*

	Repurchase agreements $'000
1 July 2018	**35,310**
Payments of repurchase agreements	**(35,310)**
30 June 2019	**-**
Proceeds from repurchase agreements	**60,514**
30 June 2020	**60,514**

*Payments of lease liabilities for the year is $1.37m.

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

	2020 $'000	2019 $'000
Note 16: Provisions		
Employee Entitlements	**2,708**	2,346
Directors' Severance Benefits	**-**	237
	2,708	2,583

An adjustment to directors' severance benefits has been applied in financial year 2020 in recognition of directors' maximum tenure term being 9 years.

At arriving at the Employee Entitlements the following variables were used:

Long Service Leave

- Accrued at the rate of 13 weeks per 10 years of completed continuous service, and 1.3 weeks per year thereafter.
- Current $1.0m (2019: $0.9m), non current $0.5m (2019: $0.4m).
- Probability factor of 30% in year 1 increasing to 100% from 7 years onwards.
- Future increases in wage and salary rates including related oncosts of 2% per annum.
- Discounted using Commonwealth Government bond rates, which have maturity dates approximating the terms of the company obligations. Average rate of 1.19% per annum.

Annual Leave

- Current $1.2m (2019: $1.0m)
- 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 oncosts at balance date.

	2020 $'000	2019 $'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	**694**	678
Deposits at call	**93,742**	52,779
	94,436	53,457
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities:		
Profit after income tax	**10,085**	11,270
Adjustments for:		
(Profit)/Loss on sale of non-current assets	**(9)**	(12)
Bad debts written off	**43**	117
Amounts set aside to provide for impairment	**2,504**	(315)
Depreciation and Amortisation	**1,952**	459
Net cash provided by operating activities before changes in working capital and provision	**14,575**	11,519
Decrease/(Increase) in deferred tax assets	**(204)**	244
(Increase)/Decrease in interest receivable	**185**	218
(Increase)/Decrease in other assets	**(5,801)**	(161)
(Increase)/Decrease in interest payable	**(1,438)**	1,069
(Increase)/Decrease in creditors and accrued expenses	**(1,401)**	94
(Decrease)/Increase in provision for employee entitlements	**362**	250

	2020 $'000	2019 $'000
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities: (Continued)		
(Decrease)/Increase in taxes payable	**(215)**	277
(Decrease) in directors severance benefits	**(237)**	(204)
(Increase) in loans and advances	**(64,559)**	(226,010)
Net increase in deposits	**180,576**	254,512
(Increase) in receivables due from other financial institutions and investments	**(138,104)**	(4,045)
Net Increase/(Decrease) in settlement accounts	**(4,578)**	3,663
Net Increase/(Decrease) in borrowings	**60,660**	(35,174)
Net cash flows from operating activities	**39,820**	6,252

	2020 $'000	2019 $'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	**44,680**	52,061
Undrawn continuing line of credit commitments	**62,389**	57,603
Balance available for redraw under redraw facilities of term loans	**237,340**	223,802
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**1,773**	1,719
One year or later and no later than five years	**4,346**	4,533

	2020 $	2019 $
Note 19: Auditors' Remuneration		
Auditors of the Company – KPMG Australia		
Audit of financial report	**124,142**	119,570
Other regulatory audit services	**120,904**	100,765
Taxation services	**19,965**	23,531
Consultancy Services	**-**	3,900
	265,012	247,766

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: M. Luttick, A. J. White, S. J. Coulson, L. J. Nolan, D.L. Robertson, F. Page and M. Liu.

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, 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, M. Smyth, Chief Growth and Experience Officer and R. Boissezon, Chief Sales Officer (until 19 July 2019).

	2020 $	**2019 $**
Directors' fees	**608,098**	562,041
Directors' severance benefits	**-**	110,062
Employee salaries	**2,472,524**	3,031,870
Employee annual leave	**77,493**	77,052
Superannuation contributions	**166,242**	181,223
	3,324,357	3,962,248

d. 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:

	2020 $	**2019 $**
Balance owing as at 30 June	**2,082,408**	2,536,209
Summary of Transactions		
New Advances	**1,361,755**	1,688,000
Repayments made during the year	**1,042,312**	675,863
Interest Received on loans to key management personnel	**45,350**	68,738

The key management personnel who held a loan or continuing credit account with the Company during the year were:

M. Luttick, L.J. Nolan, A.J. White, D. L. Robertson, S. Wall, A. De Fazio, M. Arundel. R. Boissezon (until 19 July 2019).

e. Severance

An adjustment to directors' severance benefits has been applied in financial year 2020 in recognition of directors' maximum tenure term being 9 years.

f. 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:

		Fixed Rates Maturing In				
Financial Instruments	**Floating Interest Rate**	**1 year or less**	**1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total carrying amount as per Balance Sheet**
30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	93,742	-	-	-	694	94,436
Receivables	-	-	-	-	1,192	1,192
Term Deposits	-	74,576	-	-	-	74,576
Certificates of Deposit	-	127,959	-	-	-	127,959
Floating Rate Notes	250,000	-	-	-	-	250,000
Fixed Rate Bonds	-	-	22,100	-	-	22,100
Loans and Advances - Gross	1,522,697	63,197	146,885	290	-	1,733,069
Equity Investments	-	-	-	-	2,205	2,205
	1,866,439	265,732	168,985	290	4,091	2,305,537
ii. Financial liabilities						
Payables	-	-	-	-	9,202	9,202
Deposits	1,501,309	470,788	29,931	-	28,826	2,030,854
Borrowings	-	9,042	51,472	-	8,727	69,241
	1,501,309	479,830	81,403	-	46,755	2,109,297

Effective Interest Rate ranges for Financial Instruments excluding Loans and advances 0% - 2.15%, Loans and advances is 2.17% - 16.95%
(2019: excluding Loans and advances 0% - 3.32%, Loans and advances is 3.1% - 12.95%)

Note 21: Financial Instruments (continued)

Financial Instruments	Floating Interest Rate	Fixed interest rate maturing in 1 year or less	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	489,2020	49,331	-	26,628	1,850,261
Borrowings	-	-	-	-	13,159	13,159
	1,285,100	489,202	49,331	-	50,456	1,874,089

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 Notes 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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
i. Financial assets				
Cash and liquid assets	**94,436**	54,134	**94,436**	54,134
Interest receivable	**1,192**	1,377	**1,192**	1,377
Term deposits	**74,576**	57,776	**74,765**	58,186
Certificates of deposit	**127,959**	83,729	**128,794**	84,523
Floating rate note	**250,000**	195,006	**251,187**	196,572
Fixed rate bond	**22,100**	-	**22,526**	-
Loans and advances (Net)	**1,726,580**	1,664,567	**1,728,126**	1,666,042
Equity Investments	**2,205**	2,225	**2,205**	2,225
Total financial assets	**2,299,048**	2,058,814	**2,303,231**	2,063,059
ii. Financial liabilities				
Payables	**9,202**	10,669	**9,202**	10,669
Deposits	**2,030,854**	1,850,261	**2,029,509**	1,851,892
Borrowings	**69,241**	13,159	**69,241**	13,159
Total financial liabilities	**2,109,297**	1,874,089	**2,107,952**	1,875,720

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.

The Risk Committee oversees and 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 has 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. This concentrations is considered acceptable on the basis that the Company was formed to service these members. This industry is considered essential services and hence is stable and the employment concentration is not exclusive.

ii. Expected Credit Loss (ECL) model

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).

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 methodology implemented by the Company requires the estimation of following three scenarios with respective weights:

	Weights
Base case	50%
Upside (representing favourable economic conditions)	25%
Downside (representing unfavourable economic conditions)	25%

To achieve this methodology the Company inputs a series of economic variables such as cash rate and inflation into the ECL model which statistically models the most appropriate variables which are to be used.

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk (SICR) since initial recognition.

The Company applies a combination of quantitative and qualitative factors to assess whether a SICR has occurred. These include:

- forbearance status; including requests for repayment relief coupled with risk indicators in bureau data and relevant application attributes
- more than 30 days past due.

Determination of SICR requires judgement and, is used to determine whether an exposure's credit risk has increased significantly and requires higher PD factors. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full or the borrower is more than 90 days past due. The Company sometimes modifies the terms of leases or customer loans provided to members due to commercial renegotiations with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays, and payment forgiveness and are based on indicators or criteria which, in the judgement of management, indicate the payments will most likely continue. The policies are kept under continuous review.

The Company writes off financial assets in whole or in part when it has exhausted all practical recovery efforts and/or the assessed cost of further recovery action is considered prohibitive or uneconomical.

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 or in hardship	Expected losses over life of loan and assume 100% probability of default

Management has taken a COVID-19 overlay of $1.7m on its impairment provisions based on expected volatility within the current economic environment. As there is no historical reference to the potential sensitivity in movement of the expected losses, management therefore has used its best practical estimates to calculate this overlay.

The COVID-19 overlay has been recognised for retail customers where we believe a SICR exists and the ECL model does not yet fully capture higher PD for increased risk, as we have not yet observed any significant impact to customer delinquency. We have determined the SICR PD for the pool of hardship customers by reference to internal experience, information gathered as part of our initiatives in getting in touch with our customers during COVID-19, and external credit reference data. We expect the performance of these loans and credit commitments will evolve as more data is available to model or understand the credit risk/loss implications from the COVID-19 pandemic and the mitigating impact of government stimulus.

The COVID-19 overlay are presented in Note 9f using the qualitative criteria used in the calculation, in addition to the quantitative measures above.

In response to COVID-19 we have mitigated any increased credit risk by:

- modelling various scenarios under different unemployment and government support assumptions in order to determine appropriate courses of action to minimise losses;
- pro-actively supporting our members with short-term repayment relief through the peak COVID-19 period; and
- using our current resources, working with members to help them manage their capacity to pay and at the same time gathering information, increasing cash collections or restructuring arrangements, if required.

ii. Credit risk – investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investor and the limits to concentration in one entity.

The Company limits its exposure to credit risk by generally investing with counterparties that have an external rating of at least investment grade. Unrated counterparties comprise Indue Limited and other Australian ADIs.

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

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

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 2020, the Company had 21.6% of total liabilities as liquid assets and High Quality Liquid Assets (HQLA) ratio 19.8%. 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.

In response to COVID-19, the Group also reviewed the composition and strength of its funding lines and took account of revised market conditions and opportunities to diversify current and projected funding sources.

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 2020

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*	2,030,854	2,029,834	1,343,804	129,228	362,110	194,692	-
Trade and other payables	9,202	9,202	9,202	-	-	-	-
Borrowings	69,241	69,241	15,613	-	2,156	51,472	-
Total	2,190,297	2,108,277	1,368,619	129,228	364,266	246,164	-

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	-

* 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.

	2020 $'000	2019 $'000
1% increase	**4,582**	4,521
1% decrease*	**(669)**	(4,819)

*The decrease assumes a floor of 0%.

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 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 17.5% of risk weighted assets as at 30 June 2020 (30 June 2019: 17.8%).
- 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 0.6% of risk weighted assets as at 30 June 2020 (30 June 2019: 0.7%).

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 are no material changes in the Company's management of capital during the year.

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

Note 23: Regulatory Capital Reconciliation

i. Tier 1 Capital	**2020 $'000**	**2019 $'000**
General Reserve	**15,000**	15,000
Redeemed Preference Share Capital Account	**518**	487
Retained Earnings	**173,626**	163,151
	189,144	178,638
Less Deduction's from Tier 1 Capital		
Deferred Tax Assets	**(1,763)**	(1,560)
Intangible Assets – Software	**(212)**	-
Equity Investment in Indue Ltd.	**(2,205)**	(2,205)
Equity Investment in SPP Pty Ltd	**-**	(20)
	(4,180)	(3,785)
Total Tier 1 Capital	**184,964**	174,853
ii. Tier 2 Capital		
General Reserve for Credit Losses	**6,577**	6,998
Total Tier 2 Capital	**6,577**	6,998
Total Regulatory Capital	**191,541**	181,851
iii. Capital Ratios		
Tier 1 Capital	**17.5%**	17.8%
Total Regulatory Capital	**18.1%**	18.5%
Reconciliation of Regulatory Capital to Balance Sheet		
Total Members Funds	**195,721**	185,636
Less Deductions from Tier 1 Capital	**(4,180)**	(3,785)
Total Regulatory Capital	**191,541**	181,851

Legal Entities included;

- Police Financial Services Limited
- Impetus Funding Trust No. 1

Note 24: Note Parent entity disclosures

As at 30 June 2020, the parent entity is Police Financial Services Pty Ltd ("BankVic").

	2020 $'000	2019 $'000
Results of parent entity		
Profit for the period	**10,085**	11,270
Other comprehensive income	**-**	-
Total comprehensive income for the period	**10,085**	11,270
Key Financial position information of parent entity at year end		
Cash	**51,734**	22,886
Net loans and advances	**1,726,580**	1,664,567
Total assets	**2,265,535**	2,032,252
Deposits and other borrowings	**2,030,854**	1,850,261
Total liabilities	**2,112,092**	1,877,187
Total equity of parent entity comprising of:		
Reserves	**21,557**	21,998
Redeemed capital reserve	**518**	487
Retained earnings	**173,626**	163,151
Total equity	**195,721**	185,636

Refer to Note 18 for the Parent entity's contingent liabilities and credit commitments.

Note 25: Events Subsequent To Balance Date

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

The Directors' Report on page 32 describes the Companys' approach to managing COVID-19.

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 38 to 68 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 2020 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 22nd day of September 2020

Signed in accordance with a resolution of the Directors.

Lucinda Nolan
Chair

Steven Coulson
Deputy Chair

Independent Auditor's Report

To the members of Police Financial Services Limited

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 30 June 2020 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 2020;
- 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

22 September 2020

Police Financial Services Limited
ABN 33 087 651 661 - trading as BankVic
AFSL and Australian Credit Licence 240293.
bankvic.com.au