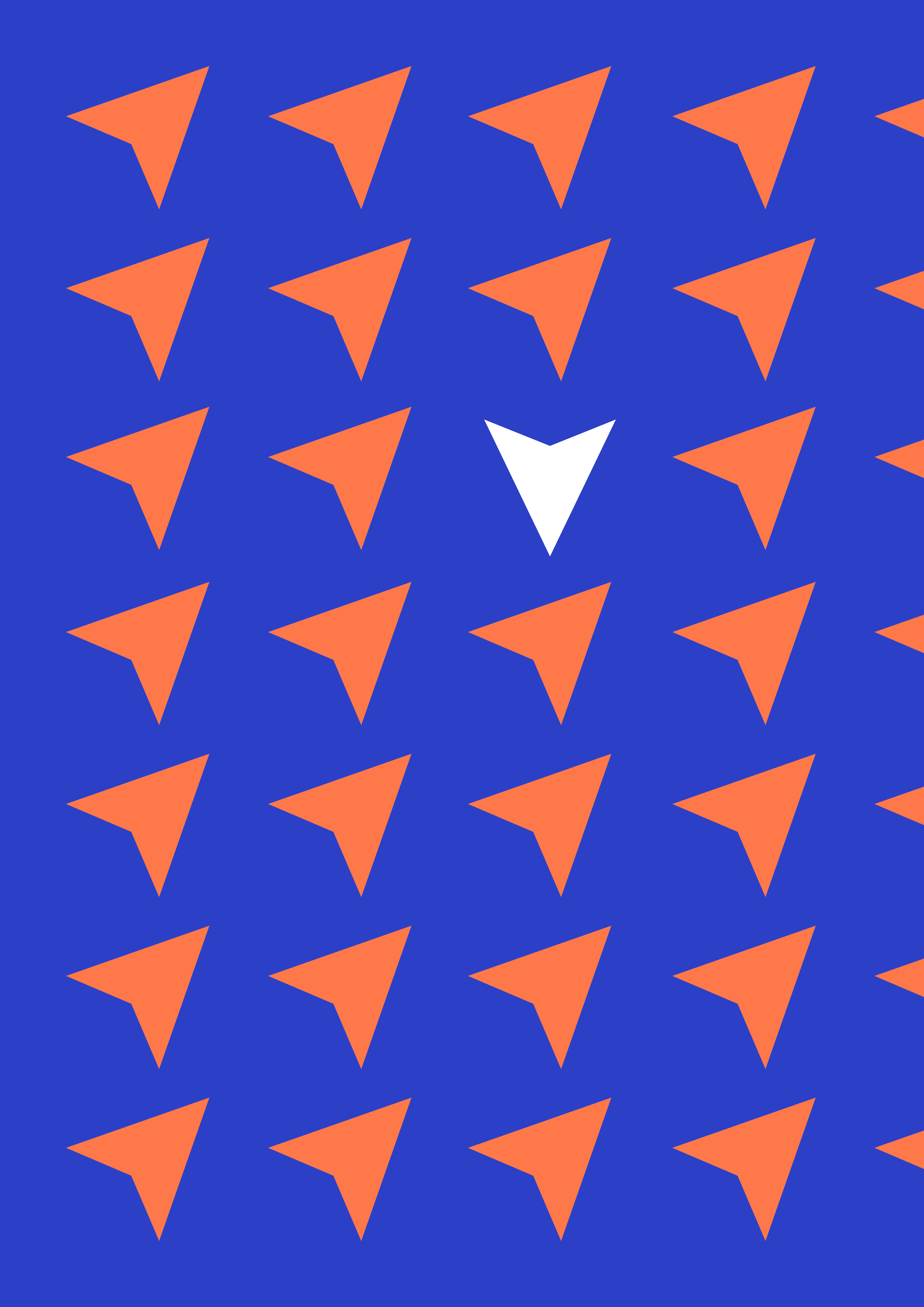
BankVic

For police, emergency and health workers

Annual Report 2022



Contents

Certified B Corporation

This company meets the highest standards of social and environmental impact

Governance

BankVic exists to strengthen the communities which we serve. We aim to build healthy communities that are financially, socially and environmentally sustainable.

We have a continual focus on strong corporate governance and financial sustainability for our members.

Our Annual Report includes details on our Board of Directors and Executive Team, our approach to Corporate Governance and our Financial Statements.

Image: Board of Directors, L-R Michael Liu, Lucinda Nolan APM, Steven Coulson, David Cowan, Debra Robertson, Faith Page and Tony Long.


THE TRAVEL BOOK
LOOKING AFTER OUR OWN
BANKER AND CUSTOMER
BANKER AND CUSTOMER
PYRAMID PRINCIPLE
THE FIRST 90 DAYS

Board of Directors.

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

Lucinda was elected to the BankVic Board in 2016. She has over 30 years' experience in the emergency services sector and has served as Deputy Commissioner with Victoria Police. Lucinda was the first female CEO of the Country Fire Authority, and she is currently CEO of the Ovarian Cancer Research Foundation.

Lucinda is also a Director of the Alkira Institute, and a Director of the Melbourne Archdiocese Catholic Schools Board.

Lucinda is a member of the Nominations Committee and a member of the People, Remuneration & Culture Committee.

Debra Robertson APM
Deputy Chair
Advanced Diploma of Public Safety (Investigation), GAICD, CF

Debra was elected to the Board in 2017. She is a Commander in charge of Intelligence and Covert Support at Victoria Police with over 39 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), served as a Director of the Police Federation Australia (PFA) and received a Churchill Fellowship in 2017.

Debra is also the Chair of Blue Light and sits on advisory boards for both RMIT and Latrobe University. She is a recipient of the Australian Police Medal (2015), a graduate of the Australian Institute of Company Directors (AICD) and completed the AICD Board Mastery Course in 2021. She is also a Member of the Registration Division of the Police Registration and Services Board (Victoria).

Debra is the Chair of the Nominations Committee and a member of the People, Remuneration & Culture Committee.

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

Steven was elected to the Board in 2013. 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 is the Chair of the Audit Committee, a member of the Corporate Governance Committee and a member of the Risk Committee.

David Cowan
Director

David was elected to the Board in November 2020. He has been a member of Victoria Police for over 30 years. He currently serves as a Superintendent in the Southern Metro Region and is the President of the Australia and New Zealand Society of Evidence Based Policing. He is an advocate for rigorous research and collaboration with academia and holds a Master of Studies in Criminology (Cambridge), Graduate Diploma Executive Leadership (PES), and Senior Executives in Government Program (Harvard). He has undertaken several organisational reviews and held positions in corporate planning and risk management.

He has been awarded a Churchill Fellowship to investigate Evidence Based Policing worldwide.

David is the Chair of the Remuneration, People & Culture Committee, and a member of the Audit Committee and the Risk Committee.

Michael Liu
Director
Bachelor of Laws (Honours) and Bachelor of Commerce (University of Melbourne).

Michael was appointed to the Board in November 2018.

Michael has over 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 a non-executive director and Deputy Chair on the Board of Foresters Financial, where he is also Chair of the Investment Committee and a member of the Audit and Compliance Committee.

Having commenced his career as a lawyer at Allens Arthur Robinson, Michael has held senior executive positions at UBS Investment Bank, Macquarie Bank, leadership roles at a global fintech headquartered in London and a venture capital firm established in Singapore.

Michael is the Chair of the Digital Transformation & Cyber Committee, a member of the Corporate Governance Committee, and a member of the Nominations Committee.

Tony Long
Director

Tony was appointed to the Board in November 2020.

Tony is a member of Victoria Police with over 40 years with experience across operations, investigations, strategic reviews and management roles. He holds a Graduate Certificate in Applied Management, Diploma of Business in Frontline Management, and Certificate III in Information Technology for Software Applications.

Tony has an extensive history of community service volunteerism. He is currently the Vice President of the Westgate Branch of the Blue Ribbon Foundation and is a Life Member of Apex Australia.

Tony is the Chair of the Corporate Governance Committee and a member of the Audit Committee and of the Digital Transformation & Cyber Committee.

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

Faith was appointed to the Board in November 2018. She is a highly experienced senior executive who brings over 25 years of proficiency in the banking sector with expertise in operational technology, information security and cyber risk management, as well as assurance, regulatory compliance, and digital transformation.

Faith has extensive experience with global professional services firms, BDO, EY, Deloitte, and IBM advising boards and audit and risk committees on operational, information security, technology, and cyber risks management. She views technology-enabled change through an experienced risk lens to enable organisations to optimise outcomes.

Faith is currently a partner at BDO and was previously a partner at Ernst & Young for 16 years in the Risk Advisory practice. She was also formerly a partner at Deloitte, advising boards and audit and risk committees on operational IT security, cyber risks and controls.

She is also a member of the Australian Institute of Company Directors (AICD) Gippsland Committee. Faith is the Chair of the Risk Committee and a member of the Digital Transformation & Cyber Committee.

Auditors KPMG, Tower Two, 727 Collins Street, Melbourne, 3008
Board membership as at 30 June 2022. Committee membership is stated on page 21

Image: Executive Team, L-R Mark Smyth, Steve Whiteling, Michelle Arundel, Penny Maroulis, Anthony De Fazio, Deirdre Boyle, Christian Hadley and Shane Kuret.

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 30 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.

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 Blue Light Victoria Youth Camp.

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.

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).

Penny Maroulis
Company Secretary
Bachelor of Laws (Honours), Bachelor of Arts (Honours) University of Melbourne, FGIA, MAICD, FGIA

Penny was appointed Company Secretary in October 2017 and is responsible for corporate governance and all matters relating to the operations and policy of the BankVic Board.

Penny commenced her career as a solicitor at Mallesons Stephens Jaques and has held senior legal policy, risk, and corruption prevention and integrity roles across the public sector.

Prior to BankVic, Penny was the Executive Advisor to the Chief Commissioner of Victoria Police for several years, working closely with the Chief Commissioner of Police and the Victoria Police Executive Command.

Steve Whiteling
Chief Risk Officer
BSC HONS, MBA, Dip Superannuation, MAICD

Steve joined BankVic in March 2021 and is responsible for BankVic's risk and compliance management function.

With over 17 years in Financial Services, Steve brings extensive risk leadership experience in the banking and superannuation industries.

Prior to BankVic, Steve held senior risk positions at AustralianSuper, Bank of New Zealand and NAB.

Shane Kuret
Chief Information Officer

Shane joined BankVic in 2022 and is responsible for leading BankVic's Technology and Information Security functions. He has over 15 years' experience within the Banking and Finance industry having held senior Technology roles at ME Bank, MyLife MyFinance and Equip Super.

Shane has extensive experience across a broad range of technology capabilities including Strategy, Information Security, Architecture, Vendor management and Digital Transformation.

Christian Hadley
Acting Chief Financial Officer
BBUS CA

Christian commenced as Acting CFO at BankVic from 1 April 2022.

Andrew Carman
Chief Financial Officer
BBUS, CPA, MAICD

Andrew was CFO at BankVic until to 1 April 2022.

Scott Wall
Chief Information Officer
BSC, MBA

Scott was CIO at BankVic until 27 May 2022.

Corporate Governance Statement.

BankVic is a member-owned mutual bank.

We are an Australian public company registered under the Corporations Act 2001 (Cth) and regulated by the Australian Securities and Investments Commission (ASIC).

As an Authorised Deposit-taking Institution (ADI) we are also regulated by the Australian Prudential Regulation Authority (APRA), and we have a continual focus on enhancing good governance, financial strength, and security.

Our Board, led by Chair Lucinda Nolan, comprises five member-elected Directors and two Board-appointed Directors. 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.

As the responsible regulator for BankVic, APRA 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 Director Professional Development through formal training, information sessions on industry and regulatory developments and attendance at industry forums.

New Directors undertake the Australian Institute of Company Directors (AICD) course within a year of becoming a Director.

Board Performance

The Board acknowledges its accountability to BankVic members and aims to ensure BankVic operates ethically and responsibly in delivering a real alternative to other profit driven competitors.

The Board adheres to strong corporate governance principles, underpinned by the following duties carried out by the Board:

- improving organisational performance by adopting and monitoring corporate strategies, budgets, plans, policies and performance

- setting strategic directions, targets and monitoring the performance of executive management
- providing processes for monitoring 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, regulatory and legal responsibilities, and
- ensuring business operations are undertaken in an honest, open and ethical manner.

The Board has delegated responsibility for management of the day-to-day activities of BankVic to the Chief Executive Officer and Executive Committee.

Board Assessment

The Board assesses its effectiveness through an annual Board Assessment, which includes:

- documented performance evaluation and review of each Director 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 through an independent Board Skills Gap Analysis process.

Additionally, the Board assesses annually the performance of the CEO and 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 (to 23 November 2021); Steven Coulson (from 23 November 2021)
Members: Michael Liu, Lucinda Nolan (to 23 November 2021), Faith Page (to 23 November 2021), Tony Long (from 23 November 2021), David Cowan (from 23 November 2021)

The principal responsibilities of the Audit Committee are to:

- oversee and appraise the quality of the audits conducted by the Company's external auditors (KPMG) and internal auditors (Ernst & Young: to 31 December 2021; Deloitte, from 1 January 2022)
- maintain 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 (to 23 November 2021), Faith Page (from 23 November 2021)
Members Faith Page, David Cowan (from 23 November 2021), Steven Coulson (from 23 November 2021), Debra Robertson (to 23 November 2021)

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
- oversee prudential standards relating to the fitness and propriety of officers and employees,
- oversee the compliance of responsible managers with their statutory obligations, 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 Debra Robertson (to 23 November 2021), Tony Long (from 23 November 2021)
Members Steven Coulson (from 23 November 2021), Tony Long (from 23 November 2021, Michael Liu (from 23 November 2021), Debra Robertson (to 23 November 2021)

The principal responsibilities of the Corporate Governance Committee are to:

- ensure that BankVic'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
- oversight BankVic Director Induction and Director Professional Development
- develop the Board's professional development program on current and emerging strategic issues
- manage Directors' potential conflicts of interests and outside interests
- ensure the Directors' obligations under the Banking Executive Accountability Regime (BEAR) are fulfilled.

Remuneration, People & Culture Committee

Chair Steven Coulson (to 23 November 2021), David Cowan (from 23 November 2021)
Members David Cowan (from 23 November 2021), Lucinda Nolan, Debra Robertson (from 23 November 2021)

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

- oversee the BankVic People and Culture strategy
- recommend the remuneration of the Chief Executive Officer and Executive Committee to the Board
- recommend to the Board the level of Directors' Remuneration (recommended to members for approval at the Annual General Meeting)
- oversight BankVic's Ethical Framework Reporting
- review BankVic's reporting to the Workplace Gender Equality Agency
- review Executive Committee succession planning

- ### Digital, Transformation & Cyber Committee

Chair Faith Page (to 23 November 2021), Michael Liu (from 23 November 2021)
Members Michael Liu, Tony Long, Faith Page

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 (to 23 November 2021), Debra Robertson (from 23 November 2021)
Members Steven Coulson (to 23 November 2021), Lucinda Nolan, Michael Liu (from 23 November 2021), and Debra Robertson (from 23 November 2021)

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 makes recommendations to the Board on:

- the fitness and propriety of candidates who nominate for positions on the Board
- selection processes for Board-appointed Directors
- Board renewal and Board succession planning

Banking executive accountability regime (BEAR)

The Board of BankVic is also cognisant of its responsibilities under the BEAR. BankVic has undertaken a gap analysis to determine where the accountability statement review process can be matured in alignment with APRA's Information Paper - Implementation of the Banking Executive Accountability Regime (December 2020).

Corporate Social Responsibility and Bcorp Certification

As a member-owned bank, we recognise that our success should not be measured in terms of balance sheet growth and profits alone, but also in how we value and relate to our people, our members and business partners, the community and the environment.

Our Corporate Social Responsibility policy helps manage social and environmental impacts. It enables us to improve the long-term sustainability of our business by improving the livelihoods of our members and the broader community, building positive community connections, and conducting sound financial stewardship and effective governance. We believe it enhances the quality and value of our brand and helps us to ensure future business success, while at the same time improving and advancing society.

As a BCorp certified company, we are committed to ongoing improvement in how we serve our members, invest in the community, govern our business and care for our people and the environment.

Diversity and Inclusion Strategy

The purpose of the BankVic Diversity and Inclusion strategy is to support and facilitate an inclusive environment that embraces all that makes us different and recognises the benefits that these differences make. These differences can include gender, age, ethnicity, religious or cultural background, disability, marital or family status, sexual orientation, gender identity and other areas of potential difference.

Creating a diverse and inclusive workforce that is reflective of our member community enables us to better understand our members' needs and tailor services accordingly.

At BankVic we are committed to a culture that embraces and fosters diversity and inclusion, and where everyone is treated fairly and with respect. This encompasses not only the conventional aspects of diversity (such as age, gender, ethnicity and sexuality), but also looks to broader aspects of diversity such as how we embrace differences in approaches and viewpoints.

Directors' Report.

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

Mr S Coulson	10
Mr D Cowan	10
Mr M Liu	10
Mr T Long	10
Ms L Nolan	10
Ms F Page	10
Ms D Robertson	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	9	-	-	2	2	-	-	3	3	-	-	1	1
Mr S Coulson	9	9	2	2	2	2	4	4	1	1	-	-	-	-
Mr M Liu	9	9	-	-	2	2	2	2	-	-	3	3	1	1
Ms F Page	9	9	4	4	2	2	-	-	-	-	3	3	-	-
Ms D Robertson	9	8	2	2	-	-	2	2	2	2	-	-	1	1
Mr T Long	9	9	-	-	2	2	4	4	-	-	3	3	-	-
Mr D Cowan	9	8	4	3	2	2	-	-	3	1	-	-	-	-

Principal activities

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

Results of operations

Profit after tax of the Company for the financial year was $11.7m (2021: $10.6m)

Review of operations growth

Over the financial year 2022 new home lending growth increased by $216 million. This was supported by strong deposit growth of $160 million.

During the year new memberships grew 2% 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 $11.7 million, an increase of 10.0% over the previous year, reflecting a relaxation of lending margin pressure as interest rates began to rise from a record low environment. Total income for the year was $59.9 million, an increase of 11% over the previous year. Operating expenses for the year were $41.5 million, an increase of 12.2% 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 ratio in financial year 2022 was 17.0% (17.2% in financial year 2021). This remains significantly above the minimum level required to be maintained as determined by the Board's risk appetite and APRA Prudential Standards.

Dividends

No dividends have been paid or declared since the end of the previous financial year (2021 $ nil).

Share issues

The only shares issued by the Company during the year were 25,030 $1 redeemable preference shares, issued to members in the normal course of business. Note that there were 14,250 $1 redeemable preference shares redeemed during the year.

State of affairs

Residual impacts of COVID-19 and new risks such as rising inflation and interest rates and US and Global recession concerns continue to disrupt financial and social environments. BankVic has managed this disruption by ensuring our capital and liquidity levels remain strong and resilient.

BankVic members are on the frontline responding to COVID-19, the effects of which were significantly felt in Victoria in FY21 and the first quarter of FY22.
As the majority of BankVic members are employed within the emergency services sector this mitigated some of BankVic's downside exposures.

BankVic continued to support the members impacted by the challenges of COVID-19 and deteriorating macro-environment.

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.

Likely developments

The Directors are not aware of any other likely developments in financial years subsequent to 30 June 2022 that may significantly affect the operation and expected results of the Company.

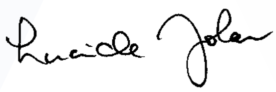
Indemnification and insurance

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.

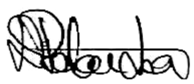
Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 24 and forms part of the Directors' report for the financial year ended 30 June 2022.

Signed this 27th day of September 2022, in accordance with a resolution of the Board of Directors.



Lucinda Nolan
Chair



Debra Robertson
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 2022 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

27 September 2022

Financial Statements.

Statement of Comprehensive Income

For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Interest income	4a	**60,083**	60,285
Interest expense	4b	**(7,811)**	(13,910)
Net interest income		**52,272**	46,375
Other income	4c	**7,597**	7,564
Total income		**59,869**	53,939
Impairment (charge)/reversal on loans and advances, net of recoveries	4d	**644**	213
Salaries and related expenses		**(20,580)**	(16,255)
Card and payment expenses		**(8,398)**	(7,573)
Other expenses	4e	**(14,918)**	(14,697)
Total expenses		**(43,252)**	(38,312)
Profit before income tax expense		**16,617**	15,627
Income tax expense	5	**(5,003)**	(5,008)
Profit for the period		**11,614**	10,619
Other comprehensive income		**–**	–
Total comprehensive income		**11,614**	10,619
Total comprehensive income available to members		**11,614**	10,619

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

Balance Sheet
As at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and Cash Equivalents	6	**85,431**	164,187
Receivables Due from Other Financial Institutions	7	**754,843**	723,325
Accrued Receivables and Other Assets	8	**5,023**	3,272
Loans and Advances (Net)	9	**1,971,861**	1,760,138
Investments	10	**2,205**	2,205
Property, Plant and Equipment	11	**7,111**	8,940
Intangible Assets	12	**160**	211
Deferred Tax Asset	5	**1,081**	1,792
TOTAL ASSETS		**2,827,715**	2,664,070
Liabilities			
Deposits	13	**2,499,989**	2,340,369
Payables and Other Liabilities	14	**12,234**	14,492
Borrowings	15	**93,663**	98,957
Current Tax Liability		**572**	975
Provisions	16	**3,304**	2,936
TOTAL LIABILITIES		**2,609,762**	2,457,729
NET ASSETS		**217,953**	206,341
Members' Funds			
Reserves		**22,413**	21,608
Redeemed Capital Reserve		**545**	534
Retained Earnings		**194,995**	184,199
TOTAL MEMBERS' FUNDS		**217,953**	206,341

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

Statement of Changes in Equity
As at 30 June 2022

	General Reserve	General Reserve for Credit Losses	Redeemed Preference Share Capital Account	Retained Earnings	Total Member Funds
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance as at 1 July 2020	15,000	6,577	518	173,625	195,721
Change in reserve during the year	-	31	-	(31)	-
Transfer from retained earnings	-	-	16	(16)	-
Profit or loss	-	-	-	10,619	10,619
Balance as at 30 June 2021	15,000	6,608	534	184,197	206,341
Balance as at 1 July 2021	**15,000**	**6,608**	**534**	**184,197**	**206,341**
Change in reserve during the year	**-**	**805**	**-**	**(805)**	**-**
Transfer from retained earnings	**-**	**-**	**11**	**(11)**	**-**
Profit or loss	**-**	**-**	**-**	**11,614**	**11,614**
Balance as at 30 June 2022	**15,000**	**7,413**	**545**	**194,995**	**217,953**

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 2022

	Note	2022 $'000	2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**59,403**	60,151
Interest paid		**(8,963)**	(13,946)
Other income received		**7,587**	7,707
Cash payments to suppliers and employees		**(45,266)**	(38,412)
Net increase in loans and advances		**(211,083)**	(33,355)
Net increase in deposits		**159,609**	309,500
Net increase in receivables due from other financial institutions		**(31,518)**	(248,690)
Income tax paid		**(4,697)**	(4,360)
Net Increase in settlement accounts		**(3,139)**	4,276
Net increase in borrowings		**(2,156)**	25,440
Net Cash inflow/(outflow) provided by Operating Activities	17(ii)	**(80,223)**	68,311
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant, equipment and intangibles		**(97)**	(42)
Net Cash outflow used in Investing Activities		**(97)**	(42)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase/(decrease) in member shares		**11**	16
Payment of lease liabilities		**1,553**	1,466
Net Cash inflow provided by Financing Activities		**1,564**	1,482
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD		**(78,756)**	69,751
Cash and cash equivalents at Beginning of Financial Year		**164,187**	94,436
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	17(i)	**85,431**	164,187

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 2022

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 27th September 2022.

b. Basis of Measurement

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

c. Functional and Presentation Currency

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency. Amounts in the financial statements have been rounded to the nearest thousand dollars (unless otherwise stated) in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

The Balance Sheet is stated in order of liquidity.

d. Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 5 – Income tax in relation to deferred tax
- Note 9 – 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

A number of new standards, amendments to standards and interpretations are effective from from 1 July 2021 but they do not have a material effect on the Company's financial statements.

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): 4-25 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 Company's financial assets, except for those which are FVPL, and equity securities designated as at FVOCI, which are not subject to impairment assessment. The 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 Company's 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.

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.

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.

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

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.

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

i. Leased Assets

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative standalone prices.

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

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.
The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on the index or a rate; initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

ii. Short-term leases and leases of low-value assets
The Company has elected not to recognise right-of-use assets and lease liability for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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.

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 2022 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 Company's consolidated financial statements.

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of liabilities as current or non-current
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of accounting policies and definition of accounting estimates
- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred tax related to assets and liabilities arising from a single transaction

	2022 $'000	2021 $'000
Note 4: Profit		
Profit before income tax has been determined after:		
a. Interest Income		
Loans and Advances (other than commercial loans)	**51,282**	54,266
Commercial Loans	**2**	8
Other Financial Institutions	**8,799**	6,011
Total Interest Income	**60,083**	60,285
b. Interest Expense		
Member Deposits	**7,646**	13,759
Borrowings	**165**	151
Total Interest Expense	**7,811**	13,910
c. Other Income		
Fees and Commissions	**5,345**	4,759
Insurance Commissions	**2,098**	2,802
Other Income	**154**	3
Total Other Income	**7,597**	7,564
d. Impairment charge/(reversal) on loans and advances, net of recoveries		
Bad debts written off: Member Loans and Advances	**41**	61
Charge/(reversal) in Provision for Impairment	**(680)**	(265)
Bad Debts Recovered	**(5)**	(9)
Total Impairment losses on loans and advances, net of recoveries	**(644)**	(213)
e. Other Expenses		
Depreciation and amortisation	**1,977**	2,012
Employee entitlements	**522**	526
Administration costs	**3,504**	3,190
Motor vehicle running costs	**301**	208
Supervision levies	**225**	147
Professional services costs	**428**	403
Product and marketing costs	**1,988**	1,864
Information technology costs	**4,210**	4,611
Occupancy costs	**555**	529
Directors' fees	**607**	604
Directors' severance benefits	**184**	165
Insurance – general	**283**	230
Other expenses	**134**	208
Total Other Expenses	**14,918**	14,697

Notes To and Forming Part of the Financial Statements

	2022 $'000	2021 $'000
Note 5: Income tax		
Income Tax Expense recognised in the Statement of Comprehensive Income		
Current tax expense Current Year	**4,292**	4,635
Under/(Over) provided in prior year	**-**	402
	4,292	5,037
Deferred tax expense		
Utilisation/(Recognition) of Temporary Differences	**711**	(29)
Total Income Tax Expense in Income Statement	**5,003**	5,008
Numerical reconciliation between tax expense and pre-tax profit		
Profit Before Tax	**16,617**	15,627
Income tax using the domestic corporation tax rate of 30% (2021: 30%)	**4,985**	4,688
Increase in income tax expense due to:		
- Non-deductible expenses	**18**	3
Decrease in income tax expense due to:		
- Non-assessable income	**-**	(85)
	5,003	4,606
Under/(Over) provided in prior year	**-**	402
Income tax expense on pre-tax profit	**5,003**	5,008

All movements recognised in the Profit and Loss.

	Assets 2022 $'000	Assets 2021 $'000	Liabilities 2022 $'000	Liabilities 2021 $'000	Net 2022 $'000	Net 2021 $'000
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Provision for Impairment	**(684)**	(888)	**-**	-	**(684)**	(888)
Lease liability	**(187)**	(146)	**-**	-	**(187)**	(146)
Property, Plant and Equipment	**(36)**	(40)	**-**	-	**(36)**	(40)
Payables	**(212)**	(265)	**1,029**	428	**817**	163
Employee Entitlements	**(991)**	(881)	**-**	-	**(991)**	(881)
Net tax (assets)/liabilities	**(2,110)**	(2,220)	**1,029**	428	**(1,081)**	(1,792)

	2022 $'000	2021 $'000
Note 6: Cash and Cash Equivalents		
Cash on Hand	**772**	998
Deposits at Call	**84,659**	163,189
	85,431	164,187
Note 7: Receivables due from other Financial Institutions		
Negotiable Certificates of Deposit	**93,892**	44,728
Floating Rate Notes *	**401,829**	489,371
Term Deposits	**38,776**	48,676
Fixed Rate Bonds	**220,346**	140,550
	754,843	723,325
a. Maturity Analysis		
Up to 3 months	**58,719**	96,604
From 3 months to 1 year	**178,088**	3,900
From 1 year to 5 years	**395,215**	536,621
Later than 5 years	**122,821**	86,200
	754,843	723,325
b. Market Value		
Negotiable Certificates of Deposits, Floating Rate Notes and Term Deposits	**732,168**	729,459

In 2022, FRNs and Bank Term Deposits have an average maturity of 982 days (2021: 1,008 days) with effective interest rates of 0.00% to 5.50% (2021: 0.00% to 3.00%) p.a.

	2022 $'000	2021 $'000
Note 8: Accrued Receivables and Other Asset		
Interest receivable	**2,006**	1,326
Other	**3,017**	1,946
	5,023	3,272
Note 9: Loans and Advances		
Continuing credit facilities	**15,869**	15,550
Other loans and advances *	**1,960,032**	1,749,122
Directors and Director-related parties	**1,504**	1,690
	1,977,405	1,766,362
Provision for impairment	**(5,544)**	(6,224)
Net loans and advances	**1,971,861**	1,760,138

*As at 30 June 2022 $539m (2021: $438m) 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)

	2022 $'000 Gross loans	2021 $'000 Gross loans
Note 9: Loans and Advances (continued)		
a. Maturity analysis		
Up to 3 months	**29,620**	38,329
From 3 months to 1 year	**48,973**	57,335
From 1 year to 5 years	**312,342**	288,636
Later than 5 years	**1,586,470**	1,382,062
	1,977,405	1,766,362
b. Loans by security		
Secured by mortgage*	**1,943,792**	1,728,061
Secured other	**13,805**	17,130
Unsecured	**19,808**	21,171
	1,977,405	1,766,362
c. Loans by purpose		
Residential	**1,943,677**	1,727,973
Personal	**33,613**	38,301
Commercial	**115**	88
	1,977,405	1,766,362

*The loan to value of the collateral for loans secured by mortgage as at 30 June 2022 was 44.36% (2021: 44.37%).

Effective Interest Rate ranges for Loans and Advance is 1.75% - 16.95% (2021: 1.75% - 16.95%).

	2022 $'000	2021 $'000
d. Concentration of risk		
i. As at 30 June 2022 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	**759,372**	674,031
Health	**261,021**	279,866
iii. The geographic concentration of loans in the State of Victoria	**94.95%**	95.29%
e. Provision for Impairment of Loans and Advances		
Balance at beginning of the year	**6,224**	6,489
Net charge/(reversal) for the year	**(680)**	(265)
Balance at the end of the year	**5,544**	6,224

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
2022					
Secured by mortgage	**1,943,792**	**2,187**	**10**	**1,257**	**3,454**
Secured other	**13,805**	**94**	**1**	**117**	**212**
Unsecured	**19,808**	**1,263**	**3**	**612**	**1,878**
	1,977,405	**3,544**	**14**	**1,986**	**5,544**
2021					
Secured by mortgage	1,728,061	1,621	10	2,516	4,147
Secured other	17,130	107	1	157	265
Unsecured	21,171	1,209	6	597	1,812
	1,766,362	2,937	17	3,270	6,224

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
2022				
Balance as at 1 July 2021	**2,937**	**17**	**3,270**	**6,224**
Charge/(reversal) during the year	**607**	**(3)**	**(1,284)**	**(680)**
Closing as at 30 June 2022	**3,543**	**14**	**1,986**	**5,544**
2021				
Balance as at 1 July 2020	3,476	333	2,680	6,489
Charge/(reversal) during the year	(539)	(316)	590	(265)
Closing as at 30 June 2021	2,937	17	3,270	6,224

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
2022				
Secured by mortgage	**1,943,792**	**1,929,660**	**2,251**	**11,881**
Secured other	**13,805**	**13,595**	**37**	**173**
Unsecured	**19,808**	**19,086**	**34**	**688**
	1,977,405	**1,962,341**	**2,322**	**12,742**

	Gross Loans & Advances $'000	Stage 1 (0-29 Days) $'000	Stage 2 (30-89 Days) $'000	Stage 3 (90+ Days) $'000
2021				
Secured by mortgage	1,728,061	1,713,289	1,425	13,347
Secured other	17,130	16,859	30	241
Unsecured	21,171	20,397	102	672
	1,766,362	1,750,545	1,557	14,260

h. Allowance for Expected Credit Losses	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
1 Jul 2020	**3,476**	**333**	**2,680**	**6,489**
Transfer between stages	448	63	(511)	-
New and increased provisions (net of releases)	(1,400)	(347)	1,215	(532)
New Overlays assessed / reversed including changes	413	(32)	(115)	266
30 Jun 2021	**2,937**	**17**	**3,270**	**6,224**
Transfer between stages	(245)	(49)	294	-
New and increased provisions (net of releases)	247	2	(185)	64
New Overlays assessed / reversed including changes	604	44	(1,393)	(744)
30 Jun 2022	**3,543**	**14**	**1,986**	**5,544**

Refer note 22 for further details on credit risk and expected credit losses.

	2022 $'000	2021 $'000
Note 10: Investments		
Shares in Indue Ltd	**2,205**	2,205
	2,205	2,205

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.

	2022 $'000	2021 $'000
Note 11: Property, Plant And Equipment		
Leasehold improvements at cost	**2,336**	2,336
Less accumulated depreciation	**(1,633)**	(1,425)
	703	911
Right of Use (ROU) Asset	**11,200**	11,200
Less accumulated depreciation	**(4,817)**	(3,233)
	6,383	7,967
Plant and Office Equipment at cost	**3,365**	3,365
Less accumulated depreciation	**(3,340)**	(3,303)
	25	62
Capital Work in Progress	**-**	-
Total	**7,111**	8,940

	Right of use assets* $'000	Leasehold Improvements $'000	Plant and Office Equipment $'000	Capital Work in Progress $'000	Total $'000
2022					
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment					
Balance at 1 July 2021	**7,967**	**911**	**62**	**-**	**8,940**
Additions	**-**	**-**	**-**	**-**	**-**
Recognition of ROU Asset	**91**	**-**	**-**	**-**	**91**
Transfers from Capital Work in Progress	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**
Depreciation expense	**(1,675)**	**(208)**	**(37)**	**-**	**(1,920)**
Carrying amount at 30 June 2022	**6,383**	**703**	**25**	**-**	**7,111**

*There have been no 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.

2021					
Movement in the carrying amounts for Leasehold Improvements and Plant and Office Equipment					
Balance at 1 July 2020	3,958	1,135	139	27	5,259
Additions	3,353	-	-	-	3,353
Recognition of ROU Asset (adoption of AASB 16)	2,367	-	-	-	2,367
Transfers from Capital Work in Progress	-	-	-	(27)	(27)
Disposals	-	-	-	-	-
Depreciation expense	(1,711)	(224)	(77)	-	(2,012)
Carrying amount at 30 June 2021	7,967	911	62	-	8,940

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

	2022 $'000	2021 $'000
Note 12: Intangible Assets – Software		
At cost	**2,517**	2,517
Accumulated amortisation	**(2,357)**	(2,306)
Net carrying amount	**160**	211
Carrying amount at the beginning of the year	**211**	212
Additions	**-**	42
Disposals	**-**	-
Amortisation expense	**(51)**	(43)
Carrying amount at the end of the year	**160**	211

	2022 $'000	2021 $'000
Note 13: Deposits		
Call deposits	**2,001,487**	1,785,992
Term and at notice deposits (Retail)	**448,456**	551,842
Term and at notice deposits (Wholesale)	**49,000**	1,500
Redeemable preference shares	**1,046**	1,035
	2,499,989	2,340,369

Effective Interest Rate ranges for deposits is 0.01% - 1.1% (2021: 0% - 3.4%)

a. Maturity Analysis

Deposits are repayable over the following terms:

	2022 $'000	2021 $'000
On call	**2,002,533**	1,787,027
Up to 3 months	**294,495**	249,341
From 3 months to 6 months	**108,479**	117,576
From 6 months to 1 year	**77,931**	151,099
From 1 year to 5 years	**16,551**	35,326
	2,499,989	2,340,369

b. Concentration of Risk

i. As at 30 June 2022 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 totalliabilities are:

	2022 $'000	2021 $'000
Victoria Police	**457,409**	413,119
Health	**286,239**	267,367
iii. The geographic concentration of deposits in the State of Victoria	**90%**	92%

	2022 $'000	2021 $'000
Note 14: Payables and Other Liabilities		
Accrued deposit interest	**1,153**	2,305
Creditors and accrued expenses	**4,073**	3,733
Lease liabilities (refer to Note 3t)*	**7,008**	8,454
	12,234	14,492

*Interest on lease liabilities is $16k and payments for lease liabilities is $1.55m during the year.

	2022 $'000	2021 $'000
Note 15: Borrowings		
Settlement Accounts	**7,708**	10,846
Repurchase Agreements	**85,955**	85,955
Other loans	**-**	2,156
	93,663	98,957

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 and a second allocation at 10 basis points per annum.

Maturity Analysis

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

	2022 $'000	2021 $'000
Up to 3 months	**7,708**	13,002
From 3 months to 1 year	**51,472**	-
From 1 year to 5 years	**34,483**	85,955
Later than 5 years	**-**	-
	93,663	98,957

Changes in liabilities arising from financing activities

	Repurchase agreements $'000
1 July 2020	**60,514**
Payments of repurchase agreements	**34,482**
30 June 2021	**(9,041)**
Proceeds from repurchase agreements	**-**
Payments of repurchase agreements	**-**
30 June 2022	**85,955**

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

	2022 $'000	2021 $'000
Note 16: Provisions		
Employee Entitlements	**3,304**	2,936
	3,304	2,936

In 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 $1.3m (2021: $1.1m), non current $0.8m (2021: $0.7m).
- 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's obligations. Average rate of 1.19% per annum.

Annual Leave

- Current $1.2m (2021: $1.1m)
- Annual leave liabilities are expected to be settled within 12 months and are calculated at undiscounted amounts based on current wage and salaryrates including related oncosts at balance date.

	2022 $'000	2021 $'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	**772**	998
Deposits at call	**84,659**	163,189
	85,431	164,187
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities		
Profit after income tax	**11,614**	10,619
Adjustments for:		
(Profit)/Loss on sale of non-current assets	**-**	-
Bad debts written off	**41**	62
Amounts set aside to provide for impairment	**(680)**	(266)
Depreciation and Amortisation	**1,977**	2,097
Net cash provided by operating activities before changes in working capital and provision	**12,592**	12,512
Decrease/(Increase) in deferred tax assets	**711**	(29)
(Increase)/Decrease in interest receivable	**(680)**	(134)
(Increase)/Decrease in other assets	**(1,071)**	(5,939)
(Increase)/Decrease in interest payable	**(1,152)**	(36)
(Increase)/Decrease in creditors and accrued expenses	**(2,842)**	3,862
(Decrease)/Increase in provision for employee entitlements	**368**	228
(Decrease)/Increase in taxes payable	**(406)**	676

	2022 $'000	2021 $'000
ii. Reconciliation of operating profit after income tax to net cash provided by operating activities (Continued)		
Increase in directors severance benefits	**184**	-
Increase in loans and advances	**(211,083)**	(33,355)
Net increase in deposits	**159,609**	309,500
Increase in receivables due from other financial institutions and investments	**(31,518)**	(248,690)
Net Increase/(Decrease) in settlement accounts	**(3,139)**	4,276
Net Increase/(Decrease) in borrowings	**(2,156)**	25,440
Net cash flows from operating activities	**(80,223)**	68,311

	2022 $'000	2021 $'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 beingdrawn upon.		
Approved but undrawn loans	**98,128**	80,024
Undrawn continuing line of credit commitments	**61,259**	62,398
Balance available for redraw under redraw facilities of term loans	**304,014**	270,736
ii. Operating lease commitments:		
Expenditure contracted but not provided for:		
Not later than one year	**117**	1,466
One year or later and no later than five years	**6,891**	4,404

	2022 $	2021 $
Note 19: Auditors' Remuneration Auditors of the Company – KPMG Australia		
Audit and related services		
Audit of financial report	**133,395**	137,100
Other regulatory audit services	**114,605**	100,700
Non audit services		
Taxation services	**19,965**	19,965
	267,965	257,765

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

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 S. J. Coulson, L. J. Nolan, D.L. Robertson, F. Page, M. Liu, T. Long & D, Cowan.

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 (until 27 May 2022), S. Whiteling, Chief Risk Officer, A. Carman, Chief Financial Officer (until 01 April 2022), 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, A. Theuma, acting Chief Information Officer (from 27 May 2022), C. Hadley, acting Chief Financial Officer (from 01 April 2022).

	2022 $	2021 $
Directors' fees	**607,214**	604,319
Directors' severance benefits	**184,000**	164,684
Key management personnel salaries	**2,338,085**	2,418,382
Key management personnel annual leave	**2,190**	13,385
Superannuation contributions	**171,946**	164,568
	3,303,435	3,365,338
d. Loans to key management personnel		
The following loan facilities were outstanding by key management personnel or related parties who are relatedto key management personnel at normal member rates during the year:		
Balance owing as at 30 June	**5,284,352**	3,885,497
Summary of Transactions		
New Advances	**2,252,446**	1,428,500
Repayments made during the year	**1,054,066**	771,701
Interest Received on loans to key management personnel	**107,560**	80,343

The key management personnel who held a loan or continuing credit account with the Company during the year were:
L.J. Nolan, D. L. Robertson, S. Wall, A. De Fazio, M. Arundel, D. Boyle, P Maroulis, T. Long, S Coulson, C Hadley & A Theuma.

e. Other key management personnel transactions

Key management personnel may hold deposit accounts with BankVic at standard terms and conditions.
There are no other transactions or contracts to which key management personnel are a related party.

Note 21: Financial Instruments

a. Interest rate risk

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

Financial Instruments	Floating Interest Rate	Fixed Rates Maturing In: 1 year or less	1 to 5years	More than 5 years	Non-interest bearing	Total carrying amount as per Balance Sheet
30 June 2022	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	84,659	-	-	-	772	85,431
Receivables	-	-	-	-	2,006	2,006
Term Deposits	-	38,776	-	-	-	38,776
Certificates of Deposit	-	93,892	-	-	-	93,892
Floating Rate Notes	401,829	-	-	-	-	401,829
Fixed Rate Bonds	-	-	87,525	132,821	-	220,346
Loans and Advances - Gross	585,179	78,554	1,313,581	91	-	1,977,405
Equity Investments	-	-	-	-	2,205	2,205
	1,071,667	211,222	1,401,106	132,912	4,983	2,821,890
ii. Financial liabilities						
Payables	-	-	-	-	12,234	12,234
Deposits	1,969,412	480,905	16,551	-	33,122	2,499,989
Borrowings	-	-	85,956	-	7,707	93,664
	1,969,412	480,905	102,507	-	53,063	2,605,887

Effective Interest Rate ranges for Financial Instruments excluding Loans and advances 0.01% - 1.1%, Loans and advances is 1.75% - 16.95%

(2021: excluding Loans and advances 0% - 3.40%, Loans and advances is 1.75% - 16.95%)

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

Note 21: Financial Instruments (continued)

Financial Instruments	Floating Interest Rate	Fixed Rates Maturing In 1 year or less	1 to 5years	More than 5 years	Non-interest bearing	Total carrying amount as perBalance Sheet
30 June 2021	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
i. Financial assets						
Cash and Cash Equivalents	163,189	-	-	-	998	164,187
Receivables	-	-	-	-	1,326	1,326
Term Deposits	-	48,676	-	-	-	48,676
Certificates of Deposit	-	44,728	-	-	-	44,728
Floating Rate Notes	489,371	-	-	-	-	489,371
Fixed Rate Bond	-	-	54,350	86,200	-	140,550
Loans and Advances - Gross	1,393,403	79,344	293,476	139	-	1,766,362
Equity Investments	-	-	-	-	2,205	2,205
	2,045,963	172,748	347,826	86,339	4,529	2,657,405
ii. Financial liabilities						
Payables	-	-	-	-	14,492	14,492
Deposits	1,757,162	518,016	35,326	-	29,865	2,340,369
Borrowings	-	-	85,955	-	13,002	98,957
	1,757,162	518,016	121,281	-	57,359	2,453,818

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	
	2022 $'000	2021 $'000	**2022 $'000**	2021 $'000
i. Financial assets				
Cash and liquid assets	**85,431**	164,187	**85,431**	164,187
Interest receivable	**2,006**	1,326	**2,006**	1,326
Term deposits	**38,776**	48,676	**38,861**	48,736
Certificates of deposit	**93,892**	44,728	**99,986**	45,000
Floating rate note	**401,829**	489,371	**397,234**	493,828
Fixed rate bond	**220,346**	140,550	**196,087**	141,895
Loans and advances (Net)	**1,971,861**	1,760,138	**1,937,816**	1,760,423
Equity Investments	**2,205**	2,205	**2,205**	2,205
Total financial assets	**2,816,346**	2,651,181	**2,759,626**	2,657,600
ii. Financial liabilities				
Payables	**12,234**	14,492	**12,234**	14,492
Deposits	**2,499,989**	2,340,369	**2,501,522**	2,338,637
Borrowings	**93,664**	98,957	**93,663**	98,957
Total financial liabilities	**2,605,887**	2,453,818	**2,607,419**	2,452,086

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.

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

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 key policies which BankVic has embedded to mitigate and manage credit risk are:

- Credit Risk Policy
- Large Exposures Policy
- Impairment Provisioning Policy

The Credit Risk 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.

The Impairment Provisioning Policy sets out an operational framework for the management of BankVic's AASB 9 model which is used to recognise and measure impairments, and provision for expected credit loss (ECL).

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, health and emergency services. This concentration is considered acceptable on the basis that the Company exists to service these members. These industries are considered essential services and hence are stable, though 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 four local 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 the 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 unemployment rate as the macro economic variable into the ECL model.

A financial asset moves from Stage 1 to Stage 2 or Stage 3 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; and
- 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 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 assessed a new Overlay of $1.0m in financial year to capture potential losses due to the impact of rising interest rates and inflationary pressures which are not currently reflected in the ECL model. Overlays created in FY21 to account for the impact of COVID-19 have been released as portfolio performance has improved with reduction in COVID related hardship accounts.

The Company will continue to monitor the situation and any hardship associated to COVID will be managed via the existing policy.

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 2022, the Company had 26.0% of total liabilities as liquid assets and an MLH (Minimum Liquidity Holdings) ratio of 25.8%. 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.

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 2022

Financial Liabilities ($'000)	Carrying Amount	Contractual Cash Flow	Less than1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years
Deposits*	2,499,989	2,498,944	1,728,763	224,035	279,163	266,983	-
Trade and other payables	12,234	12,234	12,234	-	-	-	-
Borrowings	93,664	93,663	7,708	-	51,472	34,482	-
Total	2,605,887	2,604,841	1,748,705	224,035	330,635	301,465	-

30 June 2021

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*	2,340,369	2,039,334	1,568,503	167,278	349,635	253,918	-
Trade and other payables	14,492	14,492	14,492	-	-	-	-
Borrowings	98,957	98,957	10,846	-	2,156	85,955	-
Total	2,453,818	2,152,783	1,593,841	167,278	351,791	339,873	-

* 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 2022, 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.

	2022 $'000	2021 $'000
1% increase	**2,309**	9,788
1% decrease*	**(2,411)**	(731)

*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 16.4% of risk weighted assets as at 30 June 2022 (30 June 2021: 16.6%).

- Tier 2 capital includes qualifying collective impairment allowance and asset revaluation reserves after applying other regulatory adjustments. The Company had a net Tier 2 capital ratio of 0.6% of risk weighted assets as at 30 June 2022 (30 June 2021: 0.6%).

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	**2022 $'000**	**2021 $'000**
General Reserve	**15,000**	15,000
Redeemed Preference Share Capital Account	**545**	534
Retained Earnings	**194,995**	184,199
	210,540	199,733
Less Deduction's from Tier 1 Capital		
Deferred Tax Assets	**(1,081)**	(1,792)
Intangible Assets – Software	**(160)**	(211)
Equity Investment in Indue Ltd.	**(2,205)**	(2,205)
	(3,446)	(4,208)
Total Tier 1 Capital	**207,094**	195,525
ii. Tier 2 Capital		
General Reserve for Credit Losses	**7,413**	6,608
Total Tier 2 Capital	**7,413**	6,608
Total Regulatory Capital	**214,507**	202,133
iii. Capital Ratios		
Tier 1 Capital	**16.4%**	16.6%
Total Regulatory Capital	**17.0%**	17.2%
Reconciliation of Regulatory Capital to Balance Sheet		
Total Members Funds	**217,953**	206,341
Less Deductions from Tier 1 Capital	**(3,286)**	(4,208)
Total Regulatory Capital	**214,507**	202,133

Legal Entities included;

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

Note 24: Note Parent entity disclosures

As at 30 June 2022, the parent entity is Police Financial Services Pty Ltd ("BankVic").

	2022 $'000	2021 $'000
Results of parent entity		
Profit for the period	**11,614**	10,619
Other comprehensive income	**-**	-
Total comprehensive income for the period	**11,614**	10,619
Key Financial position information of parent entity at year end		
Cash	**30,170**	51,026
Net loans and advances	**1,971,671**	1,760,138
Total assets	**2,828,554**	2,666,080
Deposits and other borrowings	**2,499,989**	2,340,369
Total liabilities	**2,611,459**	2,457,730
Total equity of parent entity comprising of:		
Reserves	**22,413**	21,608
Redeemed capital reserve	**545**	549
Retained earnings	**195,061**	184,192
Total equity	**218,019**	206,349

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.

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

   i. giving a true and fair view of the Company's financial position as at 30 June 2022 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 27th day of September 2022

Signed in accordance with a resolution of the Directors.

Lucinda Nolan
Chair

Debra Robertson
Deputy Chair

KPMG

Independent Auditor's Report

To the members of Police Financial Services Limited

Opinion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2022 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 2022;
- Statement of profit or loss and other 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.

The ***Group*** consists of the Company and the entity it controlled at the year-end or from time to time during the financial year.

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 Group 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and 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 Group and 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/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Dean Waters

Partner

Melbourne

27 September 2022