

Police Financial Services Ltd.

October 13, 2025

This report does not constitute a rating action.

Ratings Score Snapshot

SACP: bbb+

Support: 0

Additional factors: 0

Anchor	a-	
Business position	Constrained	-2
Capital and earnings	Very Strong	2
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB+/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths

Very strong capitalization.

Sound asset quality, underpinned by member base employed in essential services.

Key risks

Exposed to price competition from larger banks due to small scale.

Susceptible to funding pressure.

Police Financial Services Ltd. (trading as BankVic) will maintain very strong capital. We project our risk-adjusted capital (RAC) ratio for the mutual bank will decline to 21.0%-21.5% over the next two years. Our forecasts assume loan growth at about 10% per year, about twice the system level, and a marginal contraction in net interest margin (NIM) due to ongoing deposit market competition and low interest rates. As of June 30, 2025, our RAC ratio for BankVic was 23.6%.

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BankVic's low-risk residential lending to essential services personnel in Victoria supports its sound credit quality. We expect credit losses to remain below 0.05% over the next 24 months. This is lower than the systemwide average, but in line with mutual peers.

BankVic will remain a price taker. We believe the scale and incumbency of Australia's major banks enable them to be price-setters on both sides of the balance sheet. Consequently, mutual lenders (including BankVic) are susceptible to price competition from these larger institutions.

Australia's small financial institutions, including BankVic, are vulnerable to funding competition from the major banks. Despite this, BankVic's funding base is made up almost entirely of retail deposits and is comparatively stable.

Outlook

The rating outlook on BankVic is stable. Australia's economic prospects over the next two years are sound, despite subdued GDP growth due to elevated interest rates and major trade partners' slowing economies.

We forecast unemployment will increase somewhat but remain low in a historical context. We expect modest growth in house prices over the period. Strong immigration-driven population growth along with limited new housing supply should continue to support house prices.

We estimate BankVic's credit losses will remain low, at about 0.05% of customer loans, lower than the systemwide average. We believe the mutual bank will remain very well capitalized with a RAC ratio of 21.0%-21.5% over the next two years.

Downside scenario

We see a low likelihood of a downgrade over the next two years. Nevertheless, we could lower our ratings on BankVic if, for example, systemwide risks rise due to rapid growth in Australian property prices or private sector debt.

Upside scenario

An upgrade is highly unlikely over the next two years. This is because we consider it unlikely that BankVic will strengthen its franchise, market share, and business position to a level comparable to higher-rated domestic banks.

Key Metrics

Police Financial Services Ltd. Key Ratios And Forecasts

	--Fiscal year ended June 30 --				
(%)	2024a	2025a	2026f	2027f	2028f
Growth in operating revenue	-0.1	3.2	3.9-4.7	6.1-7.5	6.5-7.9
Growth in customer loans	8.3	12.0	8.1-9.9	9.9-12.1	9.0-11.0
Growth in total assets	2.5	7.9	8.1-9.9	9.9-12.1	9.0-11.0
Net interest income/average earning assets (NIM)	2.2	2.1	2.0-2.2	1.9-2.2	1.9-2.1
Cost to income ratio	72.0	72.5	78.0-82.0	76.7-80.6	75.1-79.0
Return on average common equity	5.9	5.7	3.5-3.9	3.9-4.3	4.3-4.7
Return on assets	0.5	0.5	0.3-0.3	0.3-0.3	0.3-0.3

Police Financial Services Ltd. Key Ratios And Forecasts

New loan loss provisions/average customer loans	0.0	0.0	0.0-0.1	0.0-0.1	0.0-0.1
Gross nonperforming assets/customer loans	0.7	0.4	0.3-0.4	0.3-0.4	0.3-0.4
Net charge-offs/average customer loans	0.0	0.0	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	24.8	23.6	23.0-24.1	21.6-22.7	20.6-21.7

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: Resilient Economy, Conservative Regulations, And Low Risk Appetite Mitigate Housing And Funding Risks

The starting point for our ratings on BankVic--similar to that for all other banks operating predominantly in Australia--reflects our assessment of Australia's macroeconomic environment.

Australia has a wealthy, open, and resilient economy that has performed relatively well following economic downcycles and external shocks. Low unemployment over the next two years should keep credit losses low and close to pre-pandemic levels. Nevertheless, banks in Australia remain exposed to a jump in credit losses due to high household debt, elevated interest rates and prices, and global economic uncertainties. We expect the persistent gap between housing demand and supply to drive modest growth in property prices during the next two years.

We consider Australia's prudential regulatory standards and supervision to be among the strongest globally. In our view, an oligopolistic industry structure supports system stability. Sound earnings and solid interest margins should protect the banking system from unforeseen events, including a significant rise in credit losses. A material dependence on external borrowing exposes Australian banks to funding disruptions.

Business Position: Small Scale Exposes BankVic To Price Competition

BankVic's small market share in Australia constrains its competitive position. Like its peers, the mutual bank is a price-taker in a banking system that four major banks dominate. The four large and diverse Australian major banks have a collective market share of about 74% of the residential lending market and about 72% of household deposits. As of Aug. 31, 2025, BankVic had a market share of only 0.1% of total housing loans and 0.2% of total household deposits.

Brokers will continue to support BankVic's above-system growth. We believe brokers are an important source of growth for Australian financial institutions, including BankVic, given they originate 60% of lending in the market. BankVic wrote about 30% of new loans via brokers in fiscal 2025 (ended June 30). This remains lower than the mutual sector average of about 48%. We expect BankVic to continue using brokers to target police and emergency services members based outside of Victoria.

We expect BankVic to retain its strong presence among Victoria's police and law enforcement personnel. In our view, the mutual bank has a good brand and reputation among these customers, who represent the foundation of its franchise.

BankVic will likely grow its small presence among Australian Federal Police personnel and retain its smaller but stable presence in the Victorian healthcare sector. Both customer segments are closely aligned with BankVic's essential services common bond.

We believe niches like this can help smaller lenders compete against larger institutions within a specific domain.

Capital And Earnings: Very Strong

BankVic's capitalization is a strength for its credit profile. We project our RAC ratio for the mutual bank will decline to 21.0-21.5% over the next two years. This will be driven by loan growth at twice the system level and an ongoing contraction in NIM, driven by an increase in deposit market competition and likely further interest rate cuts by the Reserve Bank of Australia (RBA). As of June 30, 2025, our RAC ratio for BankVic was 23.6%.

BankVic will manage regulatory capital well above the minimum prudential requirements. As of June 30, 2025, the mutual bank had a capital adequacy ratio of 20.3%, well above the minimum regulatory requirement for standardized banks of 8%.

NIM will continue to fall over the next two years amid low interest rates and tight funding costs. BankVic's NIM fell by 4 basis points to 2.15% in fiscal 2025 due to ongoing mortgage competition, rising funding costs, and the mutual bank's aggressive growth.

Risk Position: Mortgage Lending To Essential Services Personnel Supports Asset Quality

BankVic's risk profile is consistent with that of the broader Australian banking system. We believe we adequately capture the mutual bank's risk profile in the standard risk weights we apply in our capital and earnings assessment. BankVic's risk management practices are sufficient for an organization of its size and complexity, in our assessment.

BankVic's residential mortgage book and essential-services membership base underpin its stable asset quality through the cycle. We view the repayment prospects of the mutual bank's members as more stable and predictable than the average borrower. This is because the mutual bank's members are employed in publicly-funded essential service roles, making their income largely independent of macroeconomic conditions.

We believe this adds a layer of stability through the cycle to the repayment prospects of BankVic's borrowers. Even amid high cost-of-living pressures, we forecast the mutual bank's credit losses will remain below 0.05% over the next 12-24 months.

Like most Australian mutuals, BankVic's portfolio is concentrated by product and geography. The mutual bank mostly extends residential mortgages to members in metropolitan Melbourne in the state of Victoria. This makes it more susceptible to localized economic pressures than more diversified mutual peers.

That said, Melbourne is Australia's second-largest city with a diversified economy. Likewise, the underwriting standards of Australian mutual lenders, including BankVic, are generally conservative in the face of rising economic uncertainties and lower customer serviceability prospects.

Funding And Liquidity: Retail Deposit Focus Supports Funding Stability

Australia's small financial institutions, including BankVic, are vulnerable to funding pressure from the major banks. We consider the mutual bank's funding position to be broadly comparable to that of most of the regional banks and mutual lenders in Australia.

In addition, we assess the funding profiles of the four major banks and Macquarie Bank Ltd. to be stronger than all other banking institutions within Australia, including BankVic. This is because we believe the major banks could bring funding pressure on all other Australian financial institutions if they decided, or were forced, to compete more aggressively for domestic deposits due to a dislocation in overseas wholesale funding markets. Such a market event would be accompanied by some form of economic crisis, which would likely cause a flight to safety in domestic deposit markets, in our assessment.

Deposits will continue to make up most of BankVic's funding. As of Aug. 31, 2025, deposits contributed about 97% of the mutual bank's funding, down from 100% a year earlier. We consider deposit funding to be a relatively stable source of funding.

In November 2024, BankVic established a A\$250 million warehouse funding facility with Australia and New Zealand Banking Group Ltd. (AA-/Stable/A-1+). As of July 31, 2025, the mutual bank had drawn about A\$100 million from this facility, representing about 3% of its overall funding base. While we expect BankVic to continue drawing on this facility over the next 12-24 months, it should remain a small part of the mutual bank's overall funding portfolio.

BankVic holds sufficient liquidity on its balance sheet to meet at least 12 months of general market stress, in our view. The mutual bank has no wholesale liabilities maturing in fiscal 2026. It also holds about A\$475 million of internally securitized notes. These are repo-eligible with the RBA as a source of contingent liquidity. That said, we do not foresee any large or unusual liquidity needs for BankVic in the coming 12 months.

Support: Extraordinary Government Support Unlikely

As of Aug. 31, 2025, BankVic accounted for about 0.1% of total housing loans and 0.2% of total household deposits in the Australian banking sector. Given the mutual bank's small market share, we consider it unlikely that its failure would lead to a disruption in the larger financial system and the economy. Therefore, we believe it is unlikely the Australian government would provide extraordinary support, if needed.

Environment, Social, And Governance

We see ESG factors for BankVic to be broadly in line with those for its industry and domestic peers. In our view, the mutual bank's risk management and governance policies and practices are adequate for an organization of its size and complexity.

Australian mutual lenders, including BankVic, maintain a sound social franchise in the community. Their member-owned structure and an ethos of providing benefits to both their member base and the wider communities in which they operate support this. While BankVic's involvement with Victorian essential service employment groups (and their respective unions and community groups) provides an element of stability to its franchise, we see this as only being marginally supportive of the mutual bank's credit profile.

We view environmental factors as less relevant than social and governance factors to the creditworthiness of BankVic. The mining sector accounts for only about 1% of the total domestic lending by the Australian banking sector. Still, we believe BankVic is indirectly exposed to environmental factors because it operates in an economy where the commodities sector is significant.

Evolving domestic and global environment standards and legislation, and changing customer preferences leading to a transition to less carbon-intensive forms of energy, could weaken the broader economy. That could have a flow-on effect on BankVic's lending portfolio, even though the mutual bank does not directly lend to energy companies.

Key Statistics

Key Figures

Mil. A\$	2025	2024	2023	2022	2021
Adjusted assets	3,340	3,097	3,021	2,828	2,664
Customer loans (gross)	2,778	2,481	2,290	1,977	1,766
Adjusted common equity	257	245	231	216	204
Operating revenues	76	74	74	60	54
Noninterest expenses	55	53	51	44	39
Core earnings	15	14	16	12	11

A\$--Australian dollar.

Police Financial Services Limited Business Position

(%)	2025	2024	2023	2022	2021
Total revenues from business line (currency in millions)	76	74	74	60	54
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	5.7	5.9	6.8	5.5	5.3

Capital And Earnings

(%)	2025	2024	2023	2022	2021
Tier 1 capital ratio	20.5	19.5	18.9	16.4	16.6
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	90.4	90.3	89.3	87.3	86.0
Fee income/operating revenues	8.7	9.5	10.5	8.9	8.8
Cost to income ratio	72.5	72.0	69.5	73.3	71.4
Preprovision operating income/average assets	0.7	0.7	0.8	0.6	0.6
Core earnings/average managed assets	0.5	0.5	0.5	0.4	0.4

N.M.--Not meaningful.

Risk-Adjusted Capital Framework Data

(Mil. A\$)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government & central banks	284	0	0	9	3

Risk-Adjusted Capital Framework Data

(Mil. A\$)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	258	81	31	44	17
Corporate	0	0	0	0	0
Retail	3,090	971	31	909	29
Of which mortgage	3,025	913	30	866	29
Securitization§	0	0	0	0	0
Other assets†	13	12	96	15	121
Total credit risk	3,646	1,063	29	977	27
Credit valuation adjustment					
Total credit valuation adjustment	'--	0	'--	0	'--
Market Risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	'--	0	'--	0	'--
Total market risk	'--	0	'--	0	'--
Operational risk					
Total operational risk	'--	106	'--	114	'--
(Mil. A\$)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	'--	1,170	'--	1,091	100
Total Diversification/Concentration Adjustments	'--	'--	'--	431	39
RWA after diversification	'--	1,170	'--	1,522	139
(Mil. A\$)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		241	20.5	257	23.6
Capital ratio after adjustments‡		241	20.5	257	16.9

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'June. 30 2025', S&P Global Ratings.

Risk Position

(%)	2025	2024	2023	2022	2021
Growth in customer loans	12.0	8.3	15.8	12.0	1.9
Total managed assets/adjusted common equity (x)	13.0	12.6	13.1	13.1	13.1
New loan loss provisions/average customer loans	0.0	0.0	0.0	(0.0)	(0.0)
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.4	0.7	0.5	0.6	0.8
Loan loss reserves/gross nonperforming assets	59.9	39.5	52.4	43.5	43.7

Risk Position

Funding And Liquidity

(%)	2025	2024	2023	2022	2021
Core deposits/funding base	84.6	85.3	84.96	94.2	95.6
Customer loans (net)/customer deposits	108.3	103.2	97.4	80.5	75.3
Long-term funding ratio	87.1	86.7	86.1	96.2	99.5
Stable funding ratio	91.1	92.2	95.4	110.9	118.4
Short-term wholesale funding/funding base	0.0	0.0	1.5	2.3	0.5
Broad liquid assets/short-term wholesale funding (x)	N.M.	N.M.	8.3	6.9	35.0
Broad liquid assets/total assets	6.4	7.9	11.4	14.4	17.1
Broad liquid assets/customer deposits	8.4	10.2	14.7	16.6	19.5
Net broad liquid assets/short-term customer deposits	8.6	10.5	13.1	14.3	19.2
Short-term wholesale funding/total wholesale funding	0.0	0.0	10.0	39.5	11.9
N.M.--Not meaningful.					

Rating Component Scores

Issuer Credit Rating	BBB+/Stable/A-2
SACP	bbb+
Anchor	a-
Business position	Constrained (-2)
Capital and earnings	Very Strong (2)
Risk position	Adequate (0)
Funding and liquidity	Moderate and Adequate (-1)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria

- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30 2024
- [Criteria | Financial Institutions | General: Financial Institutions Rating Methodology](#), Dec. 9 2021
- [Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions](#), Dec. 9 2021
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10 2021

- [General Criteria: Group Rating Methodology](#), July 1 2019
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7 2017
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16 2011

Related Research

- [Banking Industry Country Risk Assessment: Australia](#), June 12, 2025

Ratings Detail (as of October 13, 2025)*

Police Financial Services Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2
Issuer Credit Ratings History	
02-Apr-2024	BBB+/Stable/A-2
20-Nov-2022	BBB/Positive/A-2
Sovereign Rating	
Australia	AAA/Stable/A-1+
*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.	

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