CAPITAL ADEQUACY AND RISK DISCLOSURES

Police Financial Services Limited (PFSL) is an Authorised Deposit Taking Institution ("ADI") subject to Regulation by the Australian Prudential Regulation Authority ("APRA") under the authority of the Banking Act 1959.

This update of PFSL capital adequacy and risk disclosures has been prepared in accordance with APRA prudential standard APS 330. PFSL is using the post 1 January 2018 common disclosure template because it is fully applying the Basel III regulatory adjustments as implemented by APRA.

Police Financial Services Limited ABN 33 087 651 661 trading as BankVic
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COMMON DISCLOSURE TEMPLATE

	Common Equity Tier 1 capital: instruments and reserves	**$m**	**Source**
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	N/A	
2	Retained earnings	149.0	a
3	Accumulated other comprehensive income (and other reserves)	15.4	b
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	N/A	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	N/A	
6	**Common Equity Tier 1 Capital before regulatory adjustments**	**164.4**	
	COMMON EQUITY TIER 1 CAPITAL : REGULATORY ADJUSTMENTS		
7	Prudential valuation adjustments	N/A	
8	Goodwill (net of related tax liability)	N/A	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	0.1	c
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2.1	d
11	Cash-flow hedge reserve	N/A	
12	Shortfall of provisions to expected losses	N/A	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	N/A	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	N/A	
15	Defined benefit superannuation fund net assets	N/A	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	N/A	
17	Reciprocal cross-holdings in common equity	N/A	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	N/A	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	2.2	e
20	Mortgage service rights (amount above 10% threshold)	N/A	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	N/A	
22	Amount exceeding the 15% threshold	N/A	
23	of which: significant investments in the ordinary shares of financial entities	N/A	
24	of which: mortgage servicing rights	N/A	
25	of which: deferred tax assets arising from temporary differences	N/A	
26	Any national specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j).	N/A	
26a	of which: treasury shares	N/A	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	N/A	
26c	of which: deferred fee income	N/A	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and row 23	N/A	
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	N/A	
26f	of which: capitalised expenses	N/A	
26g	of which: investments in commercial (non-financial) entities deducted under APRA prudential standards	N/A	
26h	of which: covered bonds in excess of asset cover in pools	N/A	
26i	of which: undercapitalisation of a non-consolidated subsidiary	N/A	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	N/A	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	N/A	
28	**Total regulatory adjustments to Common Equity Tier 1**	**4.4**	
29	**Common Equity Tier 1 Capital (CET1)**	**160.0**	

ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS			
30	Directly issued qualifying Additional Tier 1 Instruments	N/A	
31	of which: classified as equity under applicable accounting standards	N/A	
32	of which: classified as liabilities under applicable accounting standards	N/A	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	N/A	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	N/A	
35	of which: instruments issued by subsidiaries subject to phase out	N/A	
36	**Additional Tier 1 Capital before regulatory adjustments**	**N/A**	
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS			
37	Investments in own Additional Tier 1 instruments	N/A	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	N/A	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	N/A	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	N/A	
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	N/A	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	N/A	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	N/A	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	N/A	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**N/A**	
44	**Additional Tier 1 capital (AT1)**	**N/A**	
45	**Tier 1 Capital (T1=CET1+AT1)**	**160.0**	
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS			
46	Directly issued qualifying Tier 2 instruments	N/A	
47	Directly issued capital instruments subject to phase out from Tier 2	N/A	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	N/A	
49	of which: instruments issued by subsidiaries subject to phase out	N/A	
50	Provisions	0.6	f
51	**Tier 2 Capital before reuglatory adjustments**	**0.6**	
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS			
52	Investments in own Tier 2 instruments	N/A	
53	Reciprocal cross-holdings in Tier 2 instruments	N/A	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	N/A	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	N/A	
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	N/A	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	N/A	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	N/A	
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	N/A	
57	**Total regulatory adjustments to Tier 2 capital**	**N/A**	
58	**Tier 2 capital (T2)**	**0.6**	
59	**Total capital (TC=T1+T2)**	**160.6**	
60	**Total risk-weighted assets based on APRA standards**	**796.5**	

CAPITAL RATIOS AND BUFFERS			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	20.09%	
62	Tier 1 (as a percentage of risk-weighted assets)	20.09%	
63	Total capital (as a percentage of risk-weighted assets)	20.16%	
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	7.00%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: ADI-specific countercyclical buffer requirements	0.00%	
67	of which: G-SIB buffer requirement (not applicable)		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	12.16%	
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
AMOUNT BELOW THRESHOLDS FOR DEDUCTIONS (NOT RISK-WEIGHTED)			
72	Non-significant investments in the capital of other financial entities	2.2	e
73	Significant investments in the ordinary shares of financial entities	N/A	
74	Mortgage servicing rights (net of related tax liability)	N/A	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	N/A	
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	0.6	
77	Cap on inclusion of provisions in Tier 2 under standardised approach (of total Credit RWA)	9.96	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	N/A	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	N/A	
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2018 AND 1 JAN 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	N/A	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	N/A	
84	Current cap on T2 instruments subject to phase out arrangements	N/A	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	

Common Disclosure Template Reconciliation

The following table provides details on the BankVic Balance Sheet and the Level 2 Regulatory Balance Sheet

	Balance Sheet $m	Adjustment $m	Level 2 Regulatory Balance Sheet $m	Reference
Assets				
Cash and Cash Equivalents	26.4		26.4	
Receivables Due from Other Financial Instutions	292.6		292.6	
Accrued Receivables and Other Assets	2.2		2.2	
Loans and Advances (Net)	1,304.9		1,304.9	
Other Investments	2.2		2.2	e
Property, Plant and Equipment	2.3		2.3	
Intangible Assets	0.1		0.1	c
Deferred Tax Asset	2.1		2.1	d
TOTAL ASSETS	**1,632.8**	**0.0**	**1,632.8**	
Liabilities				
Deposits	1,415.1		1,415.1	
Payables	13.1		13.1	
Borrowings	36.3		36.3	
Current Tax Liability	0.7		0.7	
Provisions	2.6		2.6	
TOTAL LIABILITIES	**1,467.8**	**0.0**	**1,467.8**	
NET ASSETS	**165.0**	**0.0**	**165.0**	
Members' Funds				
General Reserve	15.0		15.0	b
General Reserve for Credit Losses	0.6		0.6	f
Redeemed Capital Reserve	0.4		0.4	b
Retained Earnings	149.0		149.0	a
TOTAL MEMBERS' FUNDS	**165.0**	**0.0**	**165.0**	

Main features of capital instruments

Not Applicable. BankVic does not presently have any capital instruments.

Disclosure template for main features of Regulatory Capital instruments		
1	Issuer	N/A
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	N/A
	Regulatory treatment	N/A
4	Transitional Basel III rules	N/A
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group & solo	N/A
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	N/A
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	N/A
9	Par value of instrument	N/A
10	Accounting classification	N/A
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to	N/A
36	Non-complaint transitional features	N/A
37	If yes, specify non compliant features	N/A

BankVic

Risk Exposures and Assessment

	Capital Adequacy	$m
(a)	Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio:	
	Investment Securities and other deposits	104.2
	Loans and advances secured against residential mortgages	534.9
	Other loans	57.4
	Other assets	2.3
	Capital requirements (in terms of risk-weighted assets) for credit risk for securitisation	N/A
(b)	Capital requirements (in terms of risk-weighted assets) for equity exposures in the IRB approach	N/A
(c)	Capital requirements (in terms of risk-weighted assets) for market risk	N/A
(d)	Capital Requirements (in terms of risk-weighted assets) for operational risk	97.7
(e)	Capital requirements (in terms of risk-weighted assets) for interest rate risk in the banking book (IRRBB) (IRB/AMA approved Australian-owned ADIs only).	N/A
(f)	**Common Equity Tier 1, Tier 1 and Total Capital ratio for the consolidated banking group**	
	Common Equity Tier 1	20.1%
	Tier 1 Capital	20.1%
	Total Capital	20.2%

Credit Risk

	Item Description	Gross Exposures $m	Quarterly Average Gross Exposures $m	Impaired facility $m	90 days past due $m	Specific provisions balance $m	Charge for specific provisions & write offs for the $m
(a) i	**Total gross credit risk exposures, plus average gross exposure over the period, broken down by, major types of credit exposure:**	**1,850.4**	**1,848.7**				
	Cash	0.6	0.6				
	Investment Securities and other deposits	320.0	340.4				
	Loans and advances secured against residential mortgages	1,470.1	1,448.4				
	Other loans	57.4	57.0				
	Other assets	2.3	2.3				
(a) ii (b)	**Total gross credit risk exposures, plus average gross exposure over the period, broken down by portfolio:**	**1,850.4**	**1,848.7**	**1.3**	**3.1**	**0.9**	**0.2**
	Bank	320.6	341.0				
	Residential mortgage	1,248.4	1,229.1		2.6	0.2	
	Commitments and redraws	221.7	219.3				
	Other retail	57.4	57.0	1.3	0.5	0.7	0.2
	Other assets	2.3	2.3				
(c)	**General Reserve for Credit Losses**	**0.6**					

Securitisation Exposures

	Item Description	Gross Exposures $m
(a)	**Summary of current period's securitisation activity, including the total amount of exposures securitised (by exposure type) and recognised gain or loss on sale by exposure type:**	**0**
	Total amount of exposures securitised	0
	Recognised gain or loss on sale	0
(b)	**Aggregate amount of:**	
	On Balance Sheet Securitisation exposures - Home Loans	162.5
	Off Balance Sheet Securitisation exposures - Home Loans	0.0

Remuneration

Qualitative Disclosure

BankVic's Board Remuneration Committee oversees remuneration in accordance with the organisation's Remuneration Policy developed with reference to APRA's prudential standard CPS 510. The Committee for the 2016/17 year was comprised of directors Mr Adrian White (Committee Chairman), Mr Wayne Taylor, Mr David Boell until 19 August 2016 and Mr Steven Coulson from 28 February 2017.

The Remuneration Committee met on three occasions during the year and no external consultants were engaged.

The Remuneration Policy provides a framework that allows the Board to align remuneration and risk management and encourage behaviour that supports the risk management framework of BankVic as an institution regulated by APRA. The Remuneration Policy was reviewed for the year with minor amendments only, reflecting changes to the description of relevant regulatory standards.

Through the work of the Remuneration Committee, the Board accepts responsibility for satisfying itself that the remuneration arrangements of the following persons is not contrary to the financial soundness of the organisation:

(a) BankVic's Responsible Persons as defined by the APRA Prudential Standard CPS 520 Fit and Proper;

(b) senior managers who participate in decision-making that has the capacity to significantly affect the company's risk management system and financial standing; and,

(c) any other person or group of persons who receive significant performance based remuneration and either individually or collectively may make decisions that may affect the soundness of the institution (including persons who may not be directly employed by BankVic such as contractors or persons employed by a related service company).

Included in these categories are the Chief Executive Officer, other executive managers and others directly reporting to the Chief Executive Officer (seven persons in total) as well as Heads of Finance, Operations, Credit Risk and Control, Service and Sales, Credit Services and Branch Network, Credit Assessment and Regional Branch Manager functions (seven persons in total).

The Remuneration Committee applies the principles outlined in CPS 510 including considering the inherent conflicts of interest between performance objectives and those personnel undertaking risk and financial control functions. The Board through the Committee has the discretion to adjust downward or eliminate performance based remuneration for these staff, if it takes the view this is necessary to protect the financial soundness of the organisation, or where material and unexpected outcomes arise. This is notwithstanding the achievement of any or all metrics nominated at the beginning or during the assessment period.

Through the Remuneration Committee's oversight and assessment as well as the capacity to exercise this discretion, the Board ensures that managers, or the financial performance of the business area they manage, do not predominantly determine the variable remuneration received by risk and financial control personnel.

The key risks BankVic has taken into account when implementing remuneration measures were those identified in BankVic Risk Management Framework, and included matters relating to liquidity, credit, counterparties, market issues, interest rate volatility, contagion, organisations BankVic's membership may be associated with, key suppliers, general operations, information technology, staffing, strategic issues, fraud, occupational health and safety, financial planning, regulatory requirements, legal issues and pandemic. These risks did not materially change from those of the previous period.

As well as performance metrics including profitability, membership growth, product sales and cost control, the extent to which managers contribute to effective risk management at BankVic is an integral part of this performance assessment which in turn is used in setting remuneration. The results of internal and external audits are also taken into account. Effective risk management includes reducing the likelihood and consequence of risk events and of minimising the adverse impact of such events. This is a component part of the defined performance assessment and reward scheme for staff and the remuneration arrangements for executives.

All variable remuneration is paid in cash. Therefore, no arrangements to modify or clawback such remuneration has been necessary to take account of longer-term performance.

In regard to staff subject of CPS 510, twelve received variable remuneration awards during the financial year, while none received a guaranteed bonus, sign-on award or termination payment. No deferred remuneration is either outstanding or was paid during the year.

The table below provides details of the total value of remuneration awards for senior managers/material risk decision makers for the period:

Quantitative disclosures	2017		2016	
Total value of variable remuneration awards	No. of employees	$ Total	No. of employees	$ Total
Variable remuneration award - bonus	12	280,408	12	306,084
Guaranteed bonuses	0	0	0	0
Sign on award	0	0	0	0
Termination payments	1	65,169	2	198,526
Total	**13**	**345,577**	**14**	**504,610**

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

	2017			2016		
Fixed Remuneration	$ Unrestricted	$ Deferred	$ Total	$ Unrestricted	$ Deferred	$ Total
Cash Based	2,865,180	0	2,865,180	2,856,057	0	2,856,057
Shares	0	0	0	0	0	0
Other	249,069	0	249,069	232,370	0	232,370
Total Fixed	**3,114,249**	**0**	**3,114,249**	**3,088,427**	**0**	**3,088,427**
Variable Remuneration						
Cash Based	280,408	0	280,408	306,084	0	306,084
Shares	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total Variable	**280,408**	**0**	**280,408**	**306,084**	**0**	**306,084**
Total Value	**3,394,657**	**0**	**3,394,657**	**3,394,511**	**0**	**3,394,511**