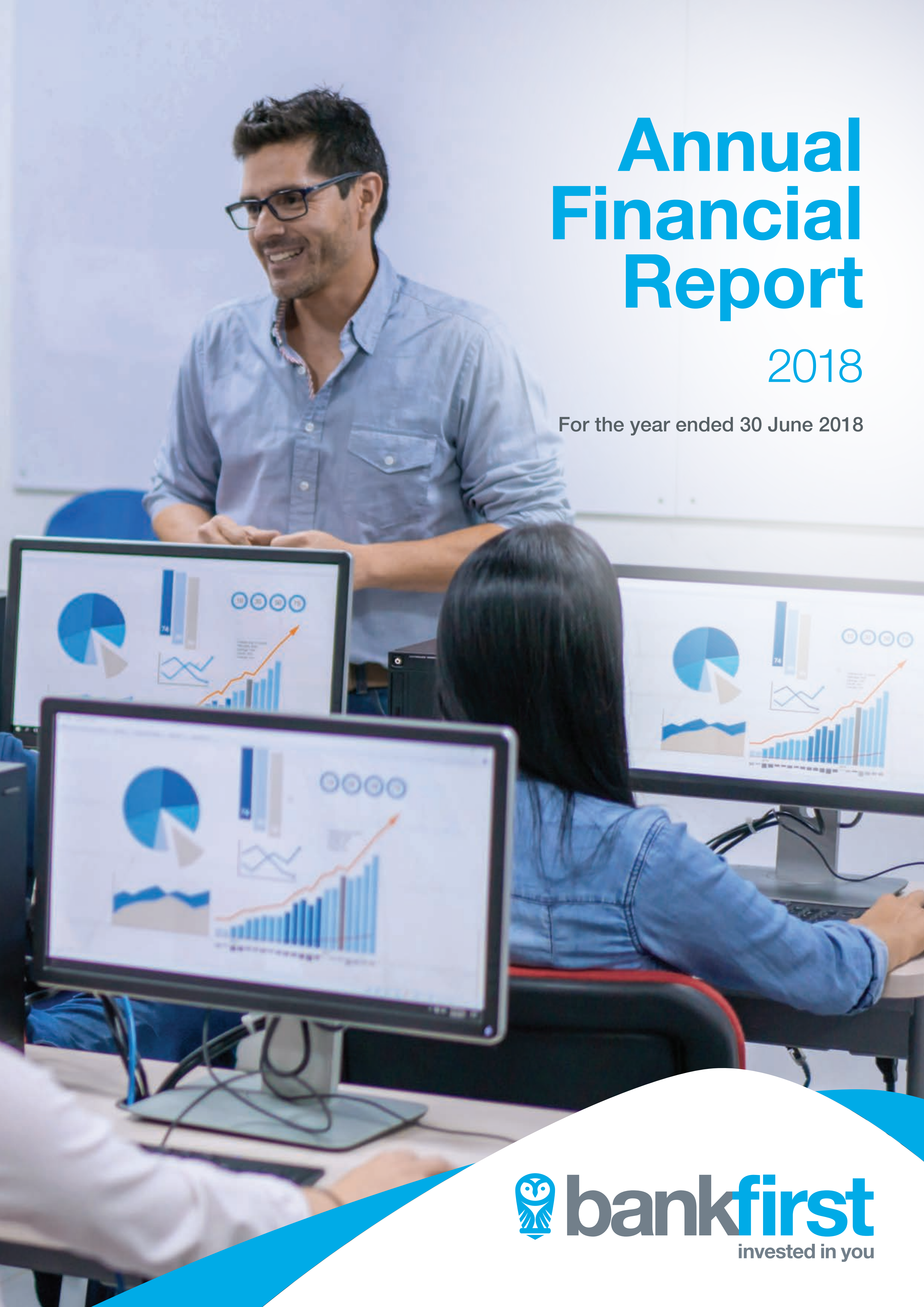

Annual Financial Report

2018

For the year ended 30 June 2018

bankfirst

invested in you

Delivering value to customers continues to be our focus in such a competitive marketplace, given we are in a historically low interest rate environment. This was achieved by providing some of the most competitive interest rates on our loans and deposits, particularly in comparison to the major banks. Our priority is to help both borrowers and savers achieve their financial goals and we have been able to do this with growth reflected in both loans (5.29%) and deposits (8.41%).

Growth of Bank First has been steady over the past financial year, with total assets increasing by 8.14% and total equity by 6.3%. Our capital base strengthened, with a capital adequacy ratio of 15.58%, which will help us to grow Bank First going forward. A net profit of $11.9m was delivered, based on sound management of the balance sheet, interest margin and expenditure.

Our good financial results place us in a strong position to reinvest back into the business for the financial benefit of our customers, through enhanced services, products, pricing and technology, allowing us to remain a competitive contender in the financial services industry. Importantly, it will also help us plan and invest in the future of Bank First and continue to position us as a strong banking alternative.

2017/18 Financial Snapshot

Loans
$1.95b
(Annual change 5.29%)

Deposits
$2.28b
(Annual change 8.41%)

Profit after income tax
$11.9m

Assets
$2.51b
(Annual change 8.14%)

Return on Average Assets
0.49%

Customer Base
108,134
(Annual change 1.4%)

Chair's Report

Bernie Lloyd

A successful organisation must have its eye on the future and your bank, Bank First, is no exception. Over the past few years we have slowly but surely transformed ourselves into what you see today. A customer owned bank with a sustainable future yet committed to honouring its significant legacy as a trusted financial service provider with a commitment to education. The past year has seen strategic planning enacted into a reality which includes a name change, a rebrand, and state of the art service offerings as part of the long-term value proposition to enable "... people who build community realise their dreams".

Bank First is very well served by a committed and loyal executive leadership team, a group of talented and enthusiastic directors and hard-working, conscientious staff. Human needs are relatively simple: we need to be seen and we need to be heard and customer feedback reveals that this is one of the most attractive characteristics of our service to the community. We have won the usual slew of awards via CANSTAR and Mozo this year but it is actually customer satisfaction which gives us the greatest pleasure. Our decisions are always informed by what direct benefits they deliver to our customers. The Royal Commission into the financial services industry has highlighted what happens when organisations lose sight of their own people as they initiate activity to grow shareholder profits. We do not serve two masters - we are only about customer advantage hence our mantra "invested in you".

Another basic human need is for our lives to have meaning and for us to understand the purpose of what we do. As well as financially empowering our customers we contribute to the wider education community annually as you well know. Apart from business partnerships with the key players in the Victorian education system and beyond, we offer myriad sponsorships and awards. It is a continuing source of joy to me and my fellow directors to visit learning communities who have won financial support to create teaching initiatives, and through this we gain understanding of how that funding will improve student experiences.

Scholarships to aspirant leaders to undertake research projects are always gratefully received as well as an inspiring insight into the calibre and forward thinking of young professionals. Such programs will only broaden as our impact on similar vocational groups grows and strengthens.

I take this opportunity to congratulate, thank and farewell Professor Karen Starr who retires from the Board after 12 years of service. Karen's contribution to our governance growth and her educational experience have proven extremely valuable to us.

I recommend that you study the details of our annual financial performance. I thank you for your support and continued belief in Bank First. I commend all staff, especially William Wolke and his executive team, and my fellow Directors, and congratulate everyone who has played a role in ensuring our successful transition to Bank First, and look forward to continuing to celebrate our success.

CEO's Report

William Wolke

This has been an important year for Bank First. Whilst achieving excellent financial results and continuing to serve our customers (owners) well we have revised our name and branding in line with our Purpose Statement:

Financially empowering people who build community realise their dreams.

We remain committed to being a customer owned bank which continues to carry forward the values and culture that are inherently part and parcel of who we are. Below decks we are essentially the same organisation which is now reaching out to other pillars of society similar to teachers and educators. After extensive external research and testing we believe our new trading name, Bank First, will be more relevant for future generations.

The brand change has been well received by current and prospective customers, staff, all our stakeholders and business partners. I'd like to thank you, our customers, for your support in this transformational journey.

This year I attended the World Credit Union Conference in Singapore, 1400 delegates representing 250 million people in over 50 countries. The themes that came out of the conference were digital disruption, changing society and customer expectations, big data, blockchain, open banking, etc. Bank First is paying close attention to these trends and indeed incorporating some into our offerings, particularly digital and technology platforms. Likewise Bank First continues to invest in technology so that added value can be provided, for example, mobile apps and our new Home First platform for assisting first home buyers. The challenge is continuing to invest in the future whilst ensuring we remain financially strong and relevant to our customers as they deal with major events in their lives.

In last year's Annual Review we mentioned that we live in an ever changing and rapidly evolving society and financial services marketplace. With this comes changing expectations and the concept of corporate social licence to operate. Our move to the name Bank First is part of meeting such challenges.

To follow up on specific work mentioned in last year's Annual Review:

- Participation in implementing real time payments for Australia. This was achieved at the end of 2017 with the deployment of the New Payments Platform and required a great deal of work and technology investment.
- Premises for our new Moonee Ponds branch have been secured and we expect to open in Puckle Street before the end of the year.
- We have modernised and are relocating to a state of the art business continuity site.

I thank and congratulate our customers, our staff, directors and management for the results and achievements this year and the sustained track record of not losing focus on our reason for being – to benefit you, our Members, our customers.

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Corporate Information

Victoria Teachers Limited trading as Bank First, an Australian for profit company limited by shares and registered under the Corporations Act 2001. It is a mutual entity with a core objective of benefitting its Members.

Members have two relationships with Bank First, as a customer and as an owner/shareholder. As customers, Members exercise choice through their selection of the products and services they believe best suit their individual needs. As owners and holders of a Member share, Members have the right, and are encouraged, to participate as appropriate in determining the activities of Bank First.

A Member Share in Bank First is non-transferable and has no "traded value" (as in share price) but each Member has an equal and important vote in the governance of Bank First, no matter the extent of their customer relationship. Members and their communities share the benefits of ownership through competitive interest rates, fairer fees and premium service.

Bank First is an Authorised Deposit-taking Institution (ADI) supervised by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959. Bank First is also supervised by the Australian Securities & Investments Commission (ASIC) under the Corporations Act 2001, and holds an Australian Financial Services Licence and an Australian Credit Licence.

Corporate Governance

The Board of Directors (the Board), the CEO and senior executives are committed to managing Bank First's business ethically and maintaining high standards of corporate governance.

The Corporate Governance information outlined below generally describes the practices and processes adopted to ensure sound management of Bank First within the legal and regulatory framework it operates under.

Bank First is protected by the same safeguards that apply to all ADIs (which includes listed banks, credit unions, and building societies), and is regulated by the same authorities. Bank First and its related bodies corporate (the 'Consolidated Entity') acts in accordance with the laws, regulations, standards and codes applicable to it; seeks to adopt proper standards of business practice; and act ethically and with integrity.

Role of the Board

The Board maintains a formal Board Charter setting out its role and responsibilities. The interests of Members are paramount to Bank First's operations and the Board sees their primary role is to protect and enhance long-term Member value.

In fulfilling this role, the Board is responsible for setting the overall governance framework of Bank First. This includes providing strategic guidance; establishing and monitoring the performance of Bank First against its objectives; ensuring the integrity of internal controls and information systems; ensuring regulatory compliance; setting Bank First's appetite and tolerance for risk; and maintaining sound financial and risk management systems oversight.

To assist in the execution of its responsibilities the Board has established a number of key committees, each with its own charter. Details of the various Board committees are outlined further in this report.

The Board has delegated responsibility for day to day operations and management of Bank First to the CEO and the executive management team.

Board Composition

Board composition is determined in accordance with Bank First's Constitution, regulatory requirements and the Board's policy on Composition, Renewal and Succession.

The Constitution provides that the number of Directors is a minimum of five; that the Board may be comprised of both Member elected and Board appointed Directors; and that a majority of the Directors are Member elected Directors.

Directors must satisfy the requirements of the Board's 'Responsible Persons - Fit and Proper Policy' in compliance with APRA's Prudential Standard CPS 520 Fit and Proper.

Corporate Governance

The names and details of Directors and the Company Secretary of Bank First in office at any time during or since the end of the financial year are:

	Names	Qualifications	Position
	**Bernadette Lloyd**	BA, DipEd, MEd, Dip Financial Services (AMI), FAICD Director since 2011	Chair, Non-Executive Director
	**Graeme Willis**	FAICD, FCIBS, SF Fin Director since 2013	Deputy Chair, Non-Executive Director
	**Michael Monester**	LLB, B. Juris., FAICD Director since 2010	Non-Executive Director
	**Joanne Dawson**	B.Comm, MBA, Dip FP, CA, GAICD CFP – non practicing Director since 2014	Non-Executive Director
	**Peter Wilson**	B. Comm, MA, FCPA, FAICD, FCPHR, FCIPD (UK) Director since June 2016	Non-Executive Director
	**Simon Terry**	B. Comm, LLB Director since January 2018	Non-Executive Director
	**Judith Crowe**	BA, Dip Ed, Dip SS, Dip Admin, Dip Psych, FACEL, GAICD Director since August 2018	Non-Executive Director
	**David Temple**	B.Ec, FAIM, FAICD 2010 – 2017 Retired in November 2017	Non-Executive Director
	**Karen Starr**	PhD, MEd, BEd, DipT (Sec), FAICD, FACEL, FACE, FIEDRC 2006 – 2018 Retired in August 2018	Non-Executive Director
	**Company Secretary** **Elsbeth Torelli**	FIPA, SA Fin, FAMI, AFIML, MAICD	Chief Risk Officer

Corporate Governance

Director Independence

It is the policy of Bank First that the Chair of the Board and a majority of the Directors are independent Non-Executive Directors. In assessing independence, the Board considers whether any Director has relationships that would materially affect their ability to exercise unfettered and independent judgment in looking after the interests of Bank First and its Members. In this regard, and more broadly, Bank First complies with APRA's Prudential Standard CPS 510 Governance.

The Board's renewal and succession processes support the maintenance of a majority of independent Non-Executive directors.

There are procedures in place to enable the Board collectively, and each Director individually, to seek independent professional advice at Bank First's expense to assist them carry out their responsibilities.

Conflicts of Interest

In accordance with the Corporations Act 2001, Directors must keep the Board advised of any interest that could potentially conflict with the interests of Bank First. The Board has developed guidelines to assist Directors in disclosing actual or potential conflicts of interest.

Transactions between Directors and Bank First are subject to the same terms and conditions that apply to Members.

Executive Management, the Company Secretary and other key employees are also required to declare any interests that could potentially conflict with the interests of Bank First.

Diversity and Non-discrimination

The Board recognises that diversity of perspectives promotes understanding, and supports business success. Managing and respecting diversity makes Bank First responsive, productive, and competitive, which creates value for its Members.

It is the policy of Bank First to treat all Members, employees, prospective employees, agents, contractors, and suppliers fairly, equally and in a non-discriminatory or non-harassing manner, and to value diversity.

Bank First recognises and embraces the diverse skills, experience, backgrounds and perspectives that people bring to the organisation irrespective of their gender or marital status, origin, ethnicity, culture, disability, age, sexual orientation, industrial activities, political and/or religious beliefs.

During the year in accordance with the requirements of the Workplace Gender Equality Act 2012 (Act), Bank First lodged its annual compliance report with the Workplace Gender Equality Agency (Agency).

Provided in the report was information such as the gender composition of the workforce and the Board, and the formal policies and strategies in place that specifically support equality in Bank First.

Bank First has been assessed as compliant with the requirements under the Act.

Ethical Standards

The Board has adopted a Code of Conduct to guide the Directors in ethical and responsible decision making, and in recognising their legal and other obligations to stakeholders. All Directors, management and staff are expected to act with the utmost honesty and integrity at all times, in accordance with the values of Bank First.

The Board has also agreed that Bank First be bound by the Customer Owned Banking Code of Practice which sets down principles by which Bank First deals with its Members and keeps them informed of the services available, fees, and other relevant information. As part of this Code, Bank First has procedures for resolving complaints from Members, and where necessary, refer disputes to an independent arbiter, the Financial Ombudsman Service.

Qualifications & Training

The policy of the Board requires Director's to attain the Australian Institute of Company Directors (AICD), Company Directors Diploma Course qualification; and depending on the assessment by the Board of their collective skill requirements, individual directors will be required to have qualifications and experience in specific skills.

Details of Directors' qualifications are reported in the table on page 2.

In addition, the Board has a strong commitment to continuous improvement through:

- New Directors, managers and staff undertaking an induction program; and
- Directors, managers and staff undertaking relevant and appropriate training and professional development programs on an ongoing basis.

Board Renewal and Succession

A Board Composition, Renewal and Succession Policy is maintained to ensure that the composition of the Board is appropriate to the circumstances of Bank First; and that Bank First has in place appropriate Board renewal and succession arrangements.

Board and Director Performance Evaluations

The Board is committed to continuous improvement and undertakes performance evaluations of the Board, key Board committees and of individual Directors.

Bank First complies with APRA Prudential Standards CPS 510 Governance and CPS 520 Fit and Proper which requires those responsible for the management and oversight of an Authorised Deposit-taking Institution (Responsible Persons) to have appropriate skills, experience and knowledge, and that they act with honesty and integrity. The eligibility of Responsible Persons which largely represents the Directors and Senior Executives of Bank First, must generally be assessed prior to their initial appointment and then re-assessed annually.

Corporate Governance

Director Remuneration

Remuneration for Directors is determined by the Board as approved by Members at a General Meeting. The pool of approved remuneration funds is allocated to each Director in accordance with their specific role and responsibilities.

The Board has approved a Remuneration Policy and the remuneration of the Directors, the CEO and Executive Managers is overseen by the Remuneration Committee.

Further information in relation to the remuneration of Directors, the CEO and Executive Managers (those persons determined to be Key Management Personnel) is contained in the notes to the financial statements.

Controlled entities

The activities of controlled entities in Bank First group are overseen by Bank First's Board. They have their own Board of Directors that are drawn from Bank First's Board and Executive Management. The entities are required to operate within Bank First's governance framework.

Constitution, Board and Committee Charters, and Policies

The Board operates in accordance with Bank First's Constitution, a comprehensive policy framework, the Board Charter, and the Charters of Board Committees.

Copies of the following are available on Bank First's website at **bankfirst.com.au**:

- Constitution;
- Board Charter;
- Governance Committee Charter;
- Nominations Committee Charter;
- Remuneration Committee Charter;
- Risk & Compliance Committee Charter;
- Audit Committee Charter; and
- Responsible Officers - Fit and Proper Policy.

Board Committees

At all times the Board retains full responsibility for oversight of Bank First's operations. In order to more effectively discharge its governance and oversight responsibilities the Board makes use of Committees.

Specialist Committees are able to focus on particular responsibilities and provide informed feedback to the Board.

In brief, the composition and role of the established Board Committees as at the end of the financial year were:

Audit Committee

Consists of Directors: Joanne Dawson (Chairperson), Graeme Willis, and Simon Terry.

The role of the Audit Committee is to provide the Board with an objective view of the effectiveness and integrity of the financial reporting and prudential reporting framework, internal and external audit assurance processes and performance, and the overall internal control framework.

Risk & Compliance Committee

Consists of Directors: Graeme Willis (Chairperson), Karen Starr (Retired Aug 18), and Joanne Dawson

The Risk & Compliance Committee's role is to assist the Board in the oversight, monitoring and review of the risk management framework including risk management policies, strategies, systems and processes. The Committee also reviews and monitors the compliance management framework covering compliance with statutory and prudential obligations.

Governance Committee

Consists of Directors: Michael Monester (Chairperson), Bernadette Lloyd and Peter Wilson.

The Governance Committee assists the Board in the discharge of its responsibilities by developing, reviewing and making recommendations on governance policies, practices and processes; and Board engagement, representation and interaction with Members and stakeholders.

Nominations Committee

Consists of Directors: Bernadette Lloyd (Chairperson), Graeme Willis and Peter Wilson.

The Nominations Committee is responsible for ensuring that candidates standing for election or appointment to the Board meet the requirements of the Constitution, APRA prudential requirements and Bank First's Responsible Persons - Position Eligibility Policy.

Remuneration Committee

Consists of Directors: Bernadette Lloyd (Chairperson), Michael Monester, and Graeme Willis.

The Remuneration Committee assists the Board in fulfilling its obligations and responsibilities with respect to the effective management of and adherence to APRA's requirements.

Corporate Citizenship

Bank First seeks to be a trusted and responsible corporate citizen, through initiatives to reduce its impact on the environment, initiatives that give back to the education community, and by being a responsible lender and basing pricing on a fair exchange between Bank First and Members.

Corporate Governance

Customer Communication

Part of Bank First carrying out its responsibility to act in the best interests of its Members is the need to provide relevant and timely information.

Members have access to information in relation to Bank First through the Slate and eSlate newsletters, the Annual Review and Annual Financial Report, the Chair's and CEO's addresses to the Annual General Meeting, Bank First's website, and by providing other contact points for Members to make enquiries with Bank First.

The Board receives regular reports detailing information on both customer satisfaction and customer complaints. The Board also receives reports on the results of Customer Insight Surveys.

Whistleblower Protection

Bank First has established a Fraud & Whistleblowing Policy aimed at providing a safe environment for employees and Directors to voice genuine concerns in relation to legislative, regulatory and code breaches, financial misconduct, impropriety, fraud and criminal activity.

Privacy

Bank First places great importance on the confidentiality of our Members' personal information. We take steps to ensure that Member information is not disclosed to, or accessed by, unauthorised persons, and that we comply with the Australian Privacy Principles, the Mandatory Data Breach notification requirements, and the Credit reporting Code of Conduct.

Bank First's Privacy Policy is available on its website.

Compliance Program

Bank First has comprehensive Compliance Management Programs in support of:

- Bank First's Australian Financial Services Licence and Australian Credit Licence obligations;
- The Customer Owned Banking Code of Practice and other relevant industry codes;
- The Anti-Money Laundering Counter-Terrorist Financing (AML/CTF) legislation;
- The ePayments Code;
- Corporate compliance policies and procedures; and
- Statutory and regulatory requirements.

Risk Management

The Board has determined Bank First's appetite and tolerance for risk after taking into account its strategic objectives and other factors including Member expectations, financial and capital requirements, external conditions, organisational culture and Bank First's experience or demonstrated capacity in managing risks.

The Board has adopted a Risk Management Strategy and ensures material risks facing Bank First have been identified and that appropriate and adequate mitigation actions, policies, controls, monitoring and reporting mechanisms are in place.

The Board accepts its responsibilities to ensure that the Directors collectively have the necessary skills, knowledge and experience to understand the risks of Bank First, including its legal and prudential obligations; and to ensure that Bank First is managed in an appropriate way taking into account these risks.

Internal and External Audit

The Internal Audit function provides an independent assurance function. The internal audit plan is approved by the Audit Committee. The Head of Internal Audit reports to the Audit Committee; and to the CEO for day- to-day operational issues as appropriate.

The external audit firm is Ernst & Young. The appointed external audit partner is required to be independent and meet APRA's Fit & Proper prudential standard. The external auditor has access to the Audit Committee and the Risk & Compliance Committee. The external audit engagement contributes to the integrity of the financial reporting, fulfills the role and responsibilities of the auditor appointed under APRA Prudential Standard APS 310 Audit & Related Matters, and undertakes the Australian Financial Services Licence (AFSL) audit and the statutory audit for the purposes of the Corporations Act.

Corporate Governance

DIRECTORS MEETING ATTENDANCE 2017/18

The number of Board meetings (including meetings of Committees of the Board) and number of meetings attended by each Director during the financial year were:

	Board meetings		Strategic Interface Sessions		Governance Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Bernadette Lloyd	11	11	2	2	4	4
Graeme Willis	11	11	2	2	-	-
Karen Starr	11	10	2	2	-	-
Michael Monester	11	11	2	2	4	4
David Temple*	4	3	-	-	-	-
Joanne Dawson	11	10	2	2	3	2
Peter Wilson	11	10	2	2	1	0
Simon Terry**	6	6	1	1	-	-

	Risk and Compliance Committee		Audit Committee		Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Bernadette Lloyd	-	-	-	-	2	2
Graeme Willis	6	6	4	4	2	2
Karen Starr	6	5	-	-	-	-
Michael Monester	-	-	-	-	2	2
David Temple*	2	2	1	-	-	-
Joanne Dawson	6	5	4	4	-	-
Peter Wilson	5	3	3	2	-	-
Simon Terry**	-	-	1	1	-	-

	Strategic Planning Session		TOTAL	
	Eligible	Attended	Eligible	Attended
Bernadette Lloyd	1	1	**20**	**20**
Graeme Willis	1	1	**26**	**26**
Karen Starr	1	1	**20**	**18**
Michael Monester	1	1	**20**	**20**
David Temple*	-	-	**7**	**5**
Joanne Dawson	1	1	**27**	**24**
Peter Wilson	1	1	**23**	**18**
Simon Terry**	1	1	**9**	**9**

Eligible - Number of meetings directors eligible to attend in their capacity as a member of the Board or respective Board Committee.

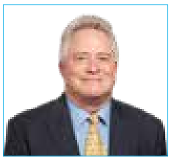
Attended - Number of Board and Board Committee meetings attended by directors in their capacity as a member.

* Retired November 2017

** Appointed January 2018

Executive Management

The Executive Managers of Bank First at the date of this report are as follows:



William Wolke B.Acc., CA (SA), MBA, FAMI, MAICD
Chief Executive Officer

William Wolke has been the Chief Executive Officer of the Bank First since 2002 and has more than thirty years experience in financial services, both in Australia and South Africa. Bank First has become a progressive and multiple award winning modern organisation in its chosen market under his leadership. His career has included general management and director appointments in a mutual building society, retail and commercial banking, financial planning, as well as leadership roles in management consulting and the accounting professions. William has been on the Board of the Customer Owned Banking Association the industry body representing the Australian mutual banking sector, since 2009.

Adam Alsbury B.Bus (Mkt), MBA, FAMI (CPM), FAICD, FAMI
Chief Strategy & Marketing Officer

Adam Alsbury joined Bank First in 2000 and has experience in marketing, business development, digital and business strategy in the software and financial services industries. He has over 20 years of service in emergency and community services in both a volunteer and professional capacity and is currently a member of the Finance, Risk & Audit Committee of Life Saving Victoria. Adam completed his Masters of Business Administration at Melbourne Business School and is a Fellow of the Australian Marketing Institute, Instil and the Australian Institute of Company Directors.

Glenn Borg B.Bus, CAHRI, A Fin, GAICD
Chief People & Culture Officer

Glenn Borg joined Bank First in 2007. He leads the People & Culture function and has experience in human resources and people management, with particular strengths and expertise in employee and industrial relations, workforce planning, occupational health and safety and organisation development. His formal qualifications are supported by his membership of the Australian Human Resources Institute, Australian Institute of Company Directors and Financial Services Institute of Australia.

David Percival B. Bus (Accounting), CPA, MBA, GAICD
Chief Financial Officer

David Percival joined Bank First in 2002 and has over 30 years experience within the financial services industry. He is responsible for leading the finance function which includes accounting, treasury, customer care and banking operations. David has been a CPA for over 20 years and completed an MBA at Deakin University in 2005.

Mark Thomson MIT., Grad Cert IS, MAICD
Chief Technology Officer

Mark Thomson has managed the Information Technology function at Bank First since 2004. He has more than 20 years experience in the financial services sector in areas of Information Technology operations, digital technologies, business continuity, cyber security project management, risk management and strategic planning.

Elsbeth Torelli FIPA, SA Fin, FAMI, AFIML, MAICD
Chief Risk Officer

Elsbeth Torelli has over 30 years of experience in the customer owned banking sector and has been leading the risk function at Bank First since 2011. She is responsible for overseeing the development and implementation of risk, compliance and governance strategies, and supporting frameworks within Bank First. She is also the Company Secretary and has previously held other executive management and management positions within Bank First. Elsbeth is actively involved in the sector as a Director of the leadership development organisation - Australasian Mutuals Institute Ltd (trading as Instil), and a Director of Traditional Credit Union Ltd.

Matthew Ricker B. Ec (Economics), MBA
Chief Customer Officer

Matthew Ricker joined Bank First in 2018 and leads the Lending, Insurance, Financial Planning, Service Centre and the Customer Contact teams. With over 27 years' experience within the Banking industry, Matthew has a strong understanding of financial services. A customer-focused strategic thinker, Matthew focuses on developing a coaching and learning culture to enhance the customer experience, while driving business results.

Directors' report

Your Directors submit their report for the year ended 30 June 2018.

Principal activities

During the financial year there were no significant changes to the principal activities of the Consolidated Entity, these being the provision of deposit taking facilities, credit facilities and related financial services to assist the economic and social wellbeing of Members.

Review of Operations

The net profit after related income tax expense of Bank First was $11.737m (2017: $10.030m). The consolidated net profit after related income tax expense for the Consolidated Entity was $11.913m (2017: $12.080m).

A detailed review of operations of Bank First during the period is contained in the Chair's and Chief Executive Officer's Reports presented separately in the Annual Review.

Dividends

No dividends have been paid or declared on Member shares by Bank First since the end of the previous financial year. No dividends were paid during the year (2017: $0.062m) for issued non-voting Tier 1 preference shares - refer Note 17.

Significant changes in the state of affairs

In the opinion of the Directors, there have been no significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year under review.

Employees

The Consolidated Entity at reporting date employed 231 employees as at 30 June 2018 (2017: 233).

Auditor independence and Audit Services

The Directors received the declaration from the Auditors of Bank First and this is presented on page 9 of the Annual Report and forms part of this Directors' Report.

Indemnification and Insurance of Directors and Officers

Bank First has paid premiums in respect of Directors and Officers Liability insurance and associated legal expenses insurance. Disclosure of the nature of the liabilities or the amount of the premium paid in respect of the Directors and Officers liability and legal expenses insurance contracts, is prohibited under the terms of the contract.

Indemnification of auditors

To the extent permitted by law, Bank First has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Events Subsequent to Balance Date

The Moonee Ponds property held for sale settled on 3 August 2018. There are no other transactions or events of a material nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

Likely developments

Bank First will continue to pursue its mission to benefit Members through advice, relationships and services, and will strive to achieve sustainable growth in its operations.

Disclosure of information relating to future developments in the operations of Bank First, which is not prejudicial to the economic interests of Bank First is contained in the Chair's and Chief Executive Officer's Reports presented separately in the Annual Review.

Directors' Interests and Benefits

During or since the end of the financial year no Directors have received or become entitled to any benefits (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the accounts) from a contract between Bank First and themselves, their firm or a company in which they have a substantial interest.

Directors' benefits are included in Note 21.

Rounding

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($000) under the option available to Bank First under ASIC Corporations Instrument 2016/191. Bank First is an entity to which the class order applies.

BRLloyd

Bernadette Lloyd
Chair
Melbourne
25 September 2018

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Victoria Teachers Limited

As lead auditor for the audit of Victoria Teachers Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Victoria Teachers Limited and the entities it controlled during the financial year.

Ernst & Young

Brett Kallio
Partner
Melbourne

25 September 2018

Directors' declaration

In accordance with a resolution of the Directors of Victoria Teachers Limited trading as Bank First, I state that:

In the opinion of the Directors of Bank First:

a. The financial statements and notes of Bank First and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

    i. Giving a true and fair view of Bank First's and the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

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

b. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

c. There are reasonable grounds to believe that Bank First will be able to pay its debts as and when they become due and payable.

On behalf of the Board

BRLloyd

Bernadette Lloyd
Chair
Melbourne
25 September 2018

Statement of comprehensive income

For the year ended 30 June 2018

		Bank First		Consolidated Entity	
	Notes	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Interest income	2(a)	93,624	88,968	92,189	87,487
Interest expense	2(b)	40,688	39,707	40,651	39,677
Net interest income		**52,936**	**49,261**	**51,538**	**47,810**
Other operating income	2(c)	11,086	11,176	11,908	11,966
Net operating income before expenses		**64,022**	**60,437**	**63,446**	**59,776**
Less					
Salaries and related expenses		25,524	24,724	25,524	24,724
Member access and statement expenses		6,168	6,745	6,168	6,745
Administration expenses		3,782	3,761	3,839	3,770
Depreciation and amortisation		2,017	1,934	3,039	2,983
Information technology costs		3,936	3,955	3,936	3,955
Occupancy expenses		2,958	2,880	1,051	884
Marketing expenses		2,508	1,802	2,508	1,802
Charge for loan impairment	7(d)	367	302	367	302
Total operating expenses		**47,260**	**46,103**	**46,432**	**45,165**
Fair value revaluation gain on land and buildings and related assets	10	-	-	-	2,651
Profit for the year before income tax		**16,762**	**14,334**	**17,014**	**17,262**
Income tax expense	3	5,025	4,304	5,101	5,182
Net profit for the year		**11,737**	**10,030**	**11,913**	**12,080**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Net fair value revaluation gain/loss on property, plant and equipment	2(d)	-	1,801	-	1,801
Items that will be reclassified subsequently to profit or loss					
Net gains/(losses) on cash flow hedges taken to equity	15	265	879	265	879
Total other comprehensive income		**265**	**2,680**	**265**	**2,680**
Total comprehensive income for the year		**12,002**	**12,710**	**12,178**	**14,760**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2018

		Bank First		Consolidated Entity	
	Notes	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Assets					
Financial assets:					
Cash and cash equivalents	4	40,990	47,187	40,990	47,187
Trade and other receivables	5	2,896	2,456	2,972	2,530
Held-to-maturity investments	6	467,508	370,948	467,508	370,948
Loans and advances	7	1,950,001	1,852,024	1,950,001	1,852,024
Due from controlled entities	8	28,240	29,204	-	-
Property, plant and equipment	10	2,262	1,771	35,034	35,482
Deferred tax assets	11	2,796	2,667	2,796	2,672
Other assets	9	13,308	12,845	9,872	9,452
Income tax receivable		-	125	-	79
Total Assets		**2,508,001**	**2,319,227**	**2,509,173**	**2,320,374**
Liabilities					
Financial liabilities:					
Deposits	12	2,284,026	2,106,914	2,281,609	2,104,696
Trade and other payables	13	14,036	12,742	14,100	12,828
Subordinated debt	14	-	2,000	-	2,000
Derivative financial instruments	15	156	570	156	570
Income tax payable		1,897	-	1,936	-
Provisions	16	4,785	4,723	4,785	4,723
Deferred tax liabilities	11	83	1,262	898	2,046
Total Liabilities		**2,304,983**	**2,128,211**	**2,303,484**	**2,126,863**
Net Assets		**203,018**	**191,016**	**205,689**	**193,511**
Equity					
Reserves		203,018	191,016	205,689	193,511
Total Equity		**203,018**	**191,016**	**205,689**	**193,511**

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2018

	Note	Bank First		Consolidated Entity	
		30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Cash flows from operating activities					
Inflows					
Interest received		93,184	89,030	91,737	87,549
Bad debts recovered		9	30	9	30
Other operating income		11,845	12,081	13,002	12,328
Total inflows		**105,038**	**101,141**	**104,748**	**99,907**
Outflows					
Interest paid		(40,446)	(39,821)	(40,409)	(39,791)
Salaries and related expenses		(25,462)	(24,391)	(25,462)	(24,391)
Other payments in the course of operations		(19,405)	(19,559)	(17,803)	(16,980)
Income taxes paid		(4,427)	(4,644)	(4,474)	(4,715)
Total outflows		**(89,740)**	**(88,415)**	**(88,148)**	**(85,877)**
Net cash flows provided by operating activities	**18**	**15,298**	**12,726**	**16,600**	**14,030**
Cash flows from investing activities					
Net increase in loans		(98,353)	(192,032)	(98,353)	(192,032)
Net movement in investments		(96,560)	34,701	(96,560)	34,701
Payments for property, plant and equipment		(1,382)	(479)	(1,521)	(479)
Proceeds from sale of property, plant and equipment		298	193	298	197
Net decrease/(increase) in loans due from controlled entities		964	882	-	-
Payments for intangible assets		(1,736)	(1,210)	(1,736)	(1,210)
Net cash flows used in investing activities		**(196,769)**	**(157,945)**	**(197,872)**	**(158,823)**
Cash flows from financing activities					
Net increase in deposits		177,274	147,661	177,075	147,235
Dividends paid		-	(62)	-	(62)
Preference Share payment		-	(3,000)	-	(3,000)
Repayment of subordinated debt		(2,000)	-	(2,000)	-
Net cash flows from financing activities		**175,274**	**144,599**	**175,075**	**144,173**
Net decrease in cash and cash equivalents		(6,197)	(620)	(6,197)	(620)
Cash and cash equivalents at the beginning of the period		47,187	47,807	47,187	47,807
Cash and cash equivalents at the end of the period	**4**	**40,990**	**47,187**	**40,990**	**47,187**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2018

Bank First	Issued preference shares	General reserve	Asset revaluation reserve	Reserve for credit losses	Cash flow hedge reserve	Total
	$000's	$000's	$000's	$000's	$000's	$000's
As at 1 July 2016	**3,000**	**169,922**	**3,551**	**6,142**	**(1,247)**	**181,368**
Profit for the period	-	10,030	-	-	-	10,030
Other comprehensive income	-	-	-	-	879	879
Total comprehensive income	**-**	**10,030**	**-**	**-**	**879**	**10,909**
Shares redeemed (Note 17)	(3,000)	-	-	-	-	(3,000)
Transfer to reserve for credit losses	-	(721)	-	721	-	-
Dividends paid/payable	-	(62)	-	-	-	(62)
Asset revaluation	-	-	1,801	-	-	1,801
At 30 June 2017	**-**	**179,169**	**5,352**	**6,863**	**(368)**	**191,016**
As at 1 July 2017	**-**	**179,169**	**5,352**	**6,863**	**(368)**	**191,016**
Profit for the period		11,737	-	-	-	11,737
Other comprehensive income	-	-	-	-	265	265
Total comprehensive income	**-**	**11,737**	**-**	**-**	**265**	**12,002**
Transfer to reserve for credit losses	-	(301)	-	301	-	-
At 30 June 2018	**-**	**190,605**	**5,352**	**7,164**	**(103)**	**203,018**

Consolidated Entity	Issued preference shares	General reserve	Asset revaluation reserve	Reserve for credit losses	Cash flow hedge reserve	Total
As at 1 July 2016	**3,000**	**170,367**	**3,551**	**6,142**	**(1,247)**	**181,813**
Profit for the period	-	12,080	-	-	-	12,080
Other comprehensive income	-	-	-	-	879	879
Total comprehensive income	**-**	**12,080**	**-**	**-**	**879**	**12,959**
Shares redeemed (Note 17)	(3,000)	-	-	-	-	(3,000)
Transfer to reserve for credit losses	-	(721)	-	721	-	-
Dividends paid/payable	-	(62)	-	-	-	(62)
Asset revaluation	-	-	1,801	-	-	1,801
At 30 June 2017	**-**	**181,664**	**5,352**	**6,863**	**(368)**	**193,511**
As at 1 July 2017	**-**	**181,664**	**5,352**	**6,863**	**(368)**	**193,511**
Profit for the period	-	11,913	-	-	-	11,913
Other comprehensive income	-	-	-	-	265	265
Total comprehensive income	**-**	**11,913**	**-**	**-**	**265**	**12,178**
Transfer to reserve for credit losses	-	(301)	-	301	-	-
At 30 June 2018	**-**	**193,276**	**5,352**	**7,164**	**(103)**	**205,689**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2018

Contents of the notes to the financial statements

Notes to the financial statements

For the year ended 30 June 2018

1. Summary of significant accounting policies

The significant accounting policies that have been adopted in the preparation of the financial statements have been applied consistently to all periods and have been applied consistently by the consolidated entity.

a. Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for land and buildings and derivatives, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

b. Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

No new or amended standards or interpretations that apply to the current financial year have caused a need for significantly altering the accounting policies of the Consolidated Entity.

Future Accounting Developments:

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the annual reporting period ended 30 June 2018, are set out below together with an assessment of the impact of these new standards and interpretations (to the extent relevant to the Consolidated Entity):

AASB 9 "Financial Instruments" amends the classification, measurement and impairment of financial instruments and general hedge accounting requirements. AASB 9 became effective on 1 July 2018 and replaces AASB 139. AASB 9 includes requirements for a different approach for classification and measurement of financial assets compared with the requirements of AASB 139. The new standard includes a model for classification and measurement, a single forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting. Based on an impact assessment undertaken by Bank First, there is no material impact to the Consolidated Entity. Some changes in processes will be required. As permitted by AASB 9 Bank First has chosen to continue to apply the hedge accounting requirements of AASB 139 Financial Instruments: Recognition and Measurement.

AASB 15 "Revenue from Contracts with Customers" is became effective on 1 July 2018. AASB 15 defines principles for recognising revenue and introduces new disclosure requirements. Under AASB 15, revenue will be recognised at an amount that reflects the consideration which an entity expects to be entitled to in exchange for transferring goods or services to a customer. Based on an impact assessment undertaken by Bank First, there is no material impact to the Consolidated Entity. Bank First does not plan to restate prior period comparative figures and will recognise an adjustment to opening retained earnings to reflect the application of the new requirements as at the date of transition, if required.

AASB 16 "Leases" replaces AASB 117 "Leases" standard and is operative for financial reporting periods beginning on or after 1 January 2019. It has made significant changes to lease accounting that will see all leases, except short term (<12 months) and low value, brought on balance sheet. These changes are not expected to have a material impact upon current accounting practices.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank First , its subsidiaries (Note 9) and special purpose entities as at 30 June each year (the Consolidated Entity). Bank First also includes the Victoria Teachers Trust Series 2012-1 (the "Series").

The financial statements of subsidiaries are prepared for the same reporting period as Bank First, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions and profits and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by Bank First are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends, if applicable, received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

Subsidiaries are fully consolidated from the date on which control is obtained by the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Residential Mortgage Securitisation Programs: The Consolidated Entity engages in a securitisation program with the Victoria Teachers Trust Series 2012-1. The principal activity of the Victoria Teachers Trust Series 2012-1 is to act as a securitisation Special Purpose Entity for the purpose of liquidity contingency for Bank First.

Notes to the financial statements

For the year ended 30 June 2018

Securitisation provides the Consolidated Entity the option to liquefy a pool of assets and increase its funding capacity. Where Bank First has continuing involvement with Victoria Teachers Trust Series 2012-1, through on-going exposure to the risks and rewards associated with the assets (e.g. due to subscription of issued notes), the originated assets remain recognised on the balance sheet of Bank First for accounting purposes.

d. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires Management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. The judgements and estimates are based on historical experience and other various factors believed to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified critical accounting policies for which significant judgements, estimates and assumptions are made, information about which is included in the following notes:

- Note 1(j) - Provision for Impairment of loans and advances.

e. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income:

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Interest receivable is included in the amount of trade and other receivables in the statement of financial position.

Interest earned on loans is calculated and accrued on the daily outstanding balance and is charged to a Member's loan on the last day of each month.

Loan establishment fees (or fee discounts) are initially deferred as part of the loan balance, and are amortised as income (or expense) over the expected life of the loan. The amortised amounts are included as part of interest income.

Other income:

Other income is recognised when the Consolidated Entity's right to receive payment is established.

f. Leases

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased assets are consumed.

g. Income tax and other taxes

Income tax on the statement of comprehensive income for the year comprises current and deferred tax.

The income tax expense (Note 3) is based on the profit for the year adjusted for any non-assessable or non-deductible items. It is calculated using tax rates enacted or substantively enacted at the balance date.

Deferred tax (Note 11) is recognised 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.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of Financial Performance except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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.

Tax consolidation:

Bank First and its subsidiaries participate in a tax consolidation group. Bank First is liable for any tax payable on behalf of its subsidiaries. However, the subsidiaries are generally required under UIG Interpretation 1052 Tax Consolidation Accounting to recognise their income tax expense and deferred taxes in their annual report and to report the current tax liability to Bank First as a contribution of equity by Bank First. Bank First reports the income tax payable as additional contributions of equity and increases Bank First's investment in the subsidiaries - refer to Note 9.

Goods and services tax:

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a part of receivables or payables in the Statement of Financial Position.

Notes to the financial statements

For the year ended 30 June 2018

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST components of the cash flows arising from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

h. Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and deposits at call which are readily converted to cash and which are subject to an insignificant risk of change in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

i. Valuation of financial instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments are categorised based upon the purpose for which the investments were acquired. Classification is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

There has been no reclassification of financial assets during the year.

Recognition and derecognition

Financial assets are initially recognised at fair value including directly attributable transaction costs,with the exception of financial assets at fair value through profit or loss.

All purchases and sales of financial instruments are recognised on the trade date i.e., the date that the Consolidated Entity commits to trade the instrument.

Financial instruments are derecognised when the right to receive cash flows from the financial assets has expired or when the Consolidated Entity transfers substantially all the risks and rewards of the financial instruments. If the Consolidated Entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the instrument if it has transferred control.

Subsequent measurement

(i) Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Consolidated Entity has the intention and ability to hold it to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, bills of exchange, negotiable certificates of deposit, rolling negotiable certificates and other deposits are subsequently measured at amortised cost using the effective interest method.

(ii) Loans and receivables - also refer to note 1(j)
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method.

(iii) Cash and cash equivalents - refer to note 1(h)

(iv) Interest bearing loans and borrowings - refer to note 1(n)

(v) Deposits - refer to note 1(o)

(vi) Derivative financial instruments and hedge accounting - refer to note 1(p)

For investments carried at amortised cost, gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired.

j. Loans

Loans are initially recognised at fair value including establishment transaction costs. At reporting date, loans are measured at amortised cost under the effective interest rate method, less any allowance for impairment.

All loan assets are subject to recurring review and assessed for possible impairment.

Impairment Assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties or original terms of the contract. The Consolidated Entity addresses impairment assessment in two areas: individually assessed Provision for Impairment and collectively assessed Provision for Impairment.

Individually assessed Provision for Impairment

The Consolidated Entity determines the Provision for Impairment appropriate for each individually significant loan on an individual basis. Items considered when determining Provision for Impairment amounts include an accumulation of repayment defaults, knowledge of financial difficulty of borrowers, probability of bankruptcy of borrowers and difficulties with the borrower to negotiate arrangements to repay arrears or pay out the loan balance, the projected receipts from the counterparties, the timing of expected cash flows, and the realisable value of collateral. Provision for Impairment are evaluated at each reporting date and monthly for management reporting purposes.

Collectively assessed Provision for Impairment

Provision for Impairment are assessed collectively for losses on loans that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Provision for Impairment are evaluated on each reporting date. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated taking into consideration the

Notes to the financial statements

For the year ended 30 June 2018

historical losses of the portfolio, current economic conditions and the probability of impairment occurring.

Refer to Note 22(a) for further information on credit risk management.

Additional provisions for impairment which are required by the Australian Prudential Regulation Authority (APRA) when reporting financial results to APRA, are reported as a reserve for credit losses. Refer to Note 7(c).

Impaired loans are written off against the provision for impairment when there is no realistic prospect of future recovery and all collateral has been realised.

The Consolidated Entity seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the arrears profile of the Member is extinguished after six months if the Member has complied with the renegotiated terms.

k. Other investments

Other investments are classified as available-for-sale financial assets which do not have a quoted market price in an active market and whose fair value cannot be reliably measured. At reporting date, these investments in controlled entities and special service providers are measured at cost less any allowance for impairment.

The Consolidated Entity assesses at each financial year end whether other investments are impaired.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

l. Property, plant and equipment

Property

Land and buildings are carried at fair value based on regular valuations by an external independent valuer who has carried out the valuation in accordance with generally accepted valuation Standards and Australian Accounting Standards.

Plant and equipment

Plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

The carrying values of plant and equipment are reviewed for impairment annually or when circumstances indicate that the carrying amount may not be recoverable. If such an indication exists and where the carrying amount exceeds the recoverable amount (being the higher of fair value and value in use), the assets are written down to their recoverable amount.

The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal, discounted to their present values. Any decrement in the carrying amount is recognised as an impairment expense in the Statement of Comprehensive Income.

Depreciation

With the exception of land, all property, plant and equipment is depreciated over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Plant and equipment	5 to 20 years
Leasehold improvements	6 years
Artwork	40 years
Computer equipment	2.5 to 4 years
Motor vehicles	4 to 8 years

The assets residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate at each financial year-end.

Derecognition and disposal

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is derecognised.

Revaluations of land and buildings

Any revaluation increment is credited to the asset revaluation reserve included in the equity section on the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income.

Any revaluation decrement is recognised in the statement of comprehensive income, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Notes to the financial statements

For the year ended 30 June 2018

Property, plant and equipment held for sale

Property, plant and equipment are not depreciated once classified as held for sale and presented separately in the statement of financial position. Such assets that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

m. Intangible assets

Intangible assets consist of computer software which has a finite useful life and is carried at cost less any accumulated amortisation and any impairment losses. Computer software is amortised on a straight-line basis over 2 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired and is reviewed at least annually.

n. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

o. Deposits

All deposits are initially recognised at fair value. After initial recognition, deposits are subsequently measured at amortised cost using the effective interest method.

Interest is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on deposits is calculated on an accrual basis. The amount of the accrual is shown as a part of trade and other payables.

p. Derivative financial instruments and hedge accounting

The Consolidated Entity enters into derivatives such as interest rate swaps to manage its exposure to interest rate risk.

Interest rate swaps relate to contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as interest rate. The Consolidated Entity either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Derivatives are recognised at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of derivatives is measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash flow hedges

The Consolidated Entity designates its derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges).

Documentation is prepared at the inception of the hedge to detail the relationship between the hedging instrument and hedged item including the effectiveness of the proposed hedge, along with the risk management objectives and strategy for undertaking the hedge transactions. On an ongoing basis, testing is conducted to document whether the hedging instrument used is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the statement of comprehensive income in the period(s) in which the hedged item will affect profit or loss (e.g. when the forecast hedged variable cash flows are recognised within profit or loss).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the statement of comprehensive income.

Details of the fair value of the derivative instruments used for hedging purposes are provided in Note 23.

q. Employee benefits

i. Wages
Liabilities for wages, including any non-monetary benefits expected to be settled within 12 months of the reporting date in respect of employees services up to the reporting date, are recognised in trade and other payables. They are measured at the amounts expected to be paid when the liabilities are settled.

ii. Annual leave
Liabilities for annual leave expected to be settled within 12 months of the reporting date in respect of employees services up to the reporting date, are recognised in the provision for annual leave. They are measured at the amounts expected to be paid when the liabilities are settled.

Notes to the financial statements

For the year ended 30 June 2018

iii. Long service leave
The liability for long service leave in respect of services provided by employees up to the reporting date is recognised in the provision for long service leave and measured as the present value of expected future payments to be made

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Notes to the financial statements

For the year ended 30 June 2018

2. Selected income and expenses

a) Interest Income

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Interest income				
Loans secured by real estate mortgages	74,344	67,885	74,344	67,885
Held-to-maturity investments	11,444	12,157	11,444	12,157
Government guaranteed loans	11	14	11	14
Other loans and advances	6,390	7,431	6,390	7,431
Due from controlled entities	1,435	1,481	-	-
Total interest income	**93,624**	**88,968**	**92,189**	**87,487**

b) Interest expense

Interest expense				
Due to controlled entities	37	30	-	-
Subordinated debt	76	155	76	155
Short-term borrowings	1	-	1	-
Other persons	40,574	39,522	40,574	39,522
Total interest expense	**40,688**	**39,707**	**40,651**	**39,677**
Net interest income	**52,936**	**49,261**	**51,538**	**47,810**

c) Other Operating Income

Other Operating Income				
Fees	2,687	2,838	2,687	2,838
Commissions	7,513	7,437	7,513	7,437
Other	886	901	1,708	1,691
Total other operating income	**11,086**	**11,176**	**11,908**	**11,966**

d) Other comprehensive income

Net fair value revaluation gain/(loss) on property plant and equipment				
Increase/(Decrease) in land values	-	2,573	-	2,573
Income tax on land revaluation	-	(772)	-	(772)
Net decrease on property plant and equipment	**-**	**1,801**	**-**	**1,801**

3. Income tax expense

The major components of income tax expense are:

On net profit for the period:				
Current income tax charge	6,453	4,545	6,492	4,591
Adjustments for income tax expense of previous years	3	-	3	-
Deferred tax relating to origination and reversal of temporary differences	(1,431)	(241)	(1,394)	591
Income tax expense reported in the statement of comprehensive income	**5,025**	**4,304**	**5,101**	**5,182**

Refer to Note 11 for details of deferred tax assets and liabilities.

A reconciliation between income tax expense on net profit for the period before income tax reported in the statement of comprehensive income, and net profit for the period before income tax multiplied by the Consolidated Entity's applicable income tax rate, is as follows:

The balance of franking credits for Bank First as at 30 June 2018 were $77m (2017: $72.5m).

Notes to the financial statements

For the year ended 30 June 2018

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Profit for the period before income tax	**16,762**	**14,334**	**17,014**	**17,262**
Income tax expense at the Consolidated Entity's statutory income tax rate of 30% (2017: 30%)	5,028	4,300	5,104	5,178
Tax on expenses not allowable as tax deductions	10	4	10	4
Tax offsets and other items	(13)	-	(13)	-
Income tax expense reported in the statement of comprehensive income	**5,025**	**4,304**	**5,101**	**5,182**

4. Cash and cash equivalents

Cash at bank and on hand	29,990	20,787	29,990	20,787
Deposits at call	11,000	26,400	11,000	26,400
	40,990	**47,187**	**40,990**	**47,187**

5. Trade and other receivables

Interest receivable on investments - held-to-maturity	2,845	2,393	2,845	2,393
Other receivables	51	63	127	137
	2,896	**2,456**	**2,972**	**2,530**

Other receivables are recognised as amounts owed to the Consolidated Entity for services provided, unpresented cheques and deposits not yet credited to the bank account, and reimbursements of expenses incurred on behalf of a third party. Amounts due for services provided are settled on normal commercial terms.

6. Investments - held to maturity

Investments with banks				
- Banks and Mutual Banks	381,591	292,207	381,591	292,207
Investments with ADIs				
- Indue Ltd	7,217	7,217	7,217	7,217
- Credit unions and building societies	78,700	71,524	78,700	71,524
	467,508	**370,948**	**467,508**	**370,948**
Maturity analysis				
No longer than 3 months	119,158	111,970	119,158	111,970
Longer than 3 months and less than 12 months	215,276	102,517	215,276	102,517
Longer than 1 year and less than 5 years	133,074	156,461	133,074	156,461
	467,508	**370,948**	**467,508**	**370,948**

All investments are held directly with Australian banks and subsidiaries and Australian registered Authorised Deposit-taking Institutions (ADIs). Refer to Note 22(a) for further comments and tables on credit quality and risk.

7. Loans

a) By class

Secured by real estate mortgages				
- Personal	1,859,488	1,756,188	1,859,488	1,756,188
- Commercial	12,601	12,850	12,601	12,850
Government guaranteed school loans	278	417	278	417
Other loans and advances				
- Personal	77,659	82,558	77,659	82,558
- Commercial	342	329	342	329
	1,950,368	**1,852,342**	**1,950,368**	**1,852,342**
Provision for impairment	(367)	(318)	(367)	(318)
Net loans and advances	**1,950,001**	**1,852,024**	**1,950,001**	**1,852,024**

As at 30 June 2018 the Consolidated Entity and Bank First predominantly have loans contractually maturing longer than 5 years.

Notes to the financial statements

For the year ended 30 June 2018

b) Provision for impairment

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Individual balances identified as impaired	1,279	875	1,279	875
Individual impairment on the above	326	222	326	222
Collective impairment	41	96	41	96
	367	**318**	**367**	**318**

c) Movement in provision for impairment

Balance at the beginning of year	318	266	318	266
Bad debts written off	(332)	(281)	(332)	(281)
Additional provisions	381	333	381	333
	367	**318**	**367**	**318**

d) Charge to profit or loss for impairment

Additional provisions	381	333	381	333
Recoveries	(14)	(31)	(14)	(31)
	367	**302**	**367**	**302**

8. Due from controlled entities

An inter entity loan was provided by Bank First to VTMB Properties Pty Ltd in February 2013 for the purchase and fit out of a commercial property located at 117 Camberwell Road, Hawthorn East. VTMB Properties Pty Ltd is a wholly owned subsidiary of Bank First and was established to manage the Consolidated Entity's property portfolio.

9. Other assets

Prepayments	272	217	345	287
Intangibles	2,489	2,088	2,489	2,088
Other investments	4,195	4,149	686	686
Assets held for sale	6,352	6,391	6,352	6,391
	13,308	**12,845**	**9,872**	**9,452**

Intangibles are predominantly made up of computer software.

At 30 June 2018, the Moonee Ponds property is classified as held for sale at $6.352m. The valuation is based on an agreed sale price (less cost to sell). The revaluation gain is recognised in the Asset Revaluation Reserve. Subsequent to 30 June 2018 the Moonee Ponds Property was settled on 3 August 2018.

10. Property, plant and equipment

Cost or fair value	7,447	6,555	42,708	41,792
Accumulated depreciation	(5,185)	(4,784)	(7,674)	(6,310)
Net carrying amount	**2,262**	**1,771**	**35,034**	**35,482**

Land and buildings	-	-	31,590	32,372
Office equipment	850	666	907	735
Furniture and fittings	194	183	1,319	1,412
Motor vehicles	1,073	922	1,073	922
Leasehold improvements	145	-	145	41
Net carrying amount	**2,262**	**1,771**	**35,034**	**35,482**

Notes to the financial statements

For the year ended 30 June 2018

Property plant and equipment primarily comprised of land and buildings. Land and buildings movement for the year is detailed in table below:

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Land and buildings				
Opening net book amount	-	3,694	32,372	34,254
Revaluation & Additions	-	2,741	-	5,332
Depreciation	-	(44)	(782)	(823)
Transfer to Assets held of sale	-	(6,391)	-	(6,391)
Closing net book amount	**-**	**-**	**31,590**	**32,372**

If land and buildings were measured using the cost model the carrying amounts would be:

Land and buildings at cost	**-**	**-**	**28,819**	**29,718**

Fair value hierarchy

Land and Buildings at fair value fall under the Level 3 category of the fair value hierarchy as defined in Note 23.

Valuation techniques used to derive Level 3 fair values

The Consolidated Entity has gained comfort that the fair value of its land and building as at 30 June 2018 is materially consistent to 30 June 2017. The effective date of the last revaluation was 30 June 2017.

The valuation technique used to derive the Level 3 fair value of Land and Building is the capitalisation of market rental approach. The capitalisation approach involves the addition of our valuer's opinion of market rent for the various components of the Property, and the deduction of outgoings (where appropriate) in order to determine the net market income of the Property. This net market income is capitalised at the adopted capitalisation rate to derive a core value.

Valuation inputs

The fair value of properties has been determined using the discounted cash flow approach. The following primary inputs have been used:

	Consolidated Entity	
	2018	2017
Capitalisation rate (%)	6.50	6.50
Terminal rate (%)	7.00	7.00
Discount rate (%)	7.75	7.75

Sensitivity to significant changes in unobservable inputs within Level 3 of the hierarchy

A significant increase in the capitalisation, terminal or discount rates would result in lower fair value of land and buildings at fair value, while significant decrease in the capitalisation, terminal or discount rates would result in a higher fair value.

Accounting for fair value revaluation gain

The 117 Camberwell Road property held by the VTMB Properties Pty Ltd subsidiary was not revalued during 2018. An upwards revaluation of $2.651m occurred in 2017. Included in the 2017 revaluation was a reversal of depreciation of $0.65m.

As a previous downward revaluation of $4.455m was recognised in the net profit for the period ended 30 June 2013 the subsequent increase in 2017 partially reverses the prior devaluation was recognised in the net profit for the period.

Notes to the financial statements

For the year ended 30 June 2018

11. Deferred tax assets and liabilities

The balance comprises temporary differences attributable to:

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Deferred tax assets				
Accruals not currently deductible	901	884	901	889
Provisions for impairment on loans	122	117	122	117
Provisions and accruals for staff entitlements	1,729	1,508	1,729	1,508
Cash flow hedge reserve	44	158	44	158
Total deferred tax assets	**2,796**	**2,667**	**2,796**	**2,672**
Deferred tax liabilities				
Deferred loan fee expenses	8	15	8	15
Depreciation of Property Plant and Equipment	75	1,247	890	2,031
Total deferred tax liabilities	**83**	**1,262**	**898**	**2,046**

12. Deposits

Term deposits	953,416	871,335	953,416	871,335
Deposits on call	1,329,828	1,234,770	1,327,411	1,232,552
Withdrawable member shares	782	809	782	809
	2,284,026	**2,106,914**	**2,281,609**	**2,104,696**

Refer to financial risk management Note 22(c) for the maturity profile of deposits.

13. Trade and other payables

Creditors and accruals	4,964	4,107	5,028	4,193
Settlement accounts	2,346	2,184	2,346	2,184
Accrued deposit interest	6,726	6,451	6,726	6,451
	14,036	**12,742**	**14,100**	**12,828**

14. Subordinated debt

Subordinated debt of $2.0m was issued by an investment trust in October 2012. The debt was repayable by the Consolidated Entity after October 2022 or earlier if subject to a defined event. Bank First has exercised the right to repay the debt after 5 years and the debt was repaid in December 2017. The debt carried interest payable quarterly at a market rate.

15. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

At 30 June 2018, the Consolidated Entity had interest rate swap agreements in place with a notional amount of $18.5m (2017: $65.1m). The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or the credit risk:

	30 June 2018		30 June 2018	
	Assets $000's	Liabilities $000's	Assets $000's	Liabilities $000's
Bank First and Consolidated Entity				
Derivatives used as cash flow hedges				
Interest rate swaps	-	156	-	570

Fair value measurement is classified as Level 2 in the fair value hierarchy with the methodology and basis for valuation explained in Note 23.

Notes to the financial statements

For the year ended 30 June 2018

	Bank First and Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's
The net movement on derivatives during the year was as follows:		
Charged to comprehensive income	265	879
	265	**879**

At 30 June 2018, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

0 - 1 year	10,500	46,600
1 - 2 years	8,000	10,500
2 - 5 years	-	8,000
	18,500	**65,100**

Cash Flow Hedges

The Consolidated Entity is exposed to variability in the future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Consolidated Entity uses interest rate swaps as cash flow hedges of these interest rate risks

16. Employee provisions

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Provisions - Long Service Leave	3,326	3,159	3,326	3,159
Provisions - Annual leave	1,459	1,564	1,459	1,564
	4,785	**4,723**	**4,785**	**4,723**

17. Equity

General reserve

The balance of retained profits at the end of each year is transferred to the general reserve. The general reserve also includes the share redemption reserve. Redeemed capital reserve represents the amount of redeemable preference shares (member shares) redeemed since 1 July 1999.

Asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Reserve for credit losses

The reserve for credit losses is used to recognise an additional allowance for credit losses as required when reporting financial results to APRA. This reserve is not permitted by Australian Accounting Standards to be recognised as an impairment charge against loans and overdrafts or recognised as an expense in the statement of comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit and loss consistent with the applicable accounting policy.

Preference Shares

The issue of redeemable non-voting preference shares (called "Tier 1" shares) of $100 each was approved at a Members meeting on 16 March 2006. 30,000 fully paid shares were issued to an investment trust on 21 June 2006. The shares were redeemed by Bank First in December 2016.

Dividends

No dividends were paid on the redeemable Tier 1 preference shares in the current year as the shares were redeemed by Bank First in December 2016. In the prior year $0.062m dividends were paid, which were fully franked.

Notes to the financial statements

For the year ended 30 June 2018

18. Statement of cash flows

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Cash flows from operating activities:				
Net profit	11,737	10,030	11,913	12,080
Adjustments for:				
Net loss/(gain) on sale of non-current assets	(51)	(33)	5	(33)
Revaluation of property, plant and equipment and related assets	-	-	-	(2,651)
Provisions for loan impairment	376	363	376	363
Depreciation/amortisation	2,017	1,934	3,039	2,983
Changes in assets and liabilities:				
(Increase)/decrease in accrued receivables	-	7	10	4
(Increase)/decrease in accrued interest	(440)	62	(452)	62
(Increase)/decrease in other investments	(47)	(62)	-	-
(Increase)/decrease in other assets	(54)	17	(57)	(9)
(Increase)/decrease in deferred tax asset	(245)	141	(240)	964
Increase/(decrease) in trade creditors	858	529	835	545
Increase/(decrease) in interest payable	242	(114)	242	(114)
Increase/(decrease) in provisions	62	333	62	333
Increase/(decrease) in income taxes payable	2,022	(481)	2,015	(497)
Increase/(decrease) in deferred tax liabilities	(1,179)	-	(1,148)	-
Net Cash from operating activities	**15,298**	**12,726**	**16,600**	**14,030**

19. Commitments and contingencies

a) Contingent liabilities

There are no contingent liabilities at 30 June 2018 (2017: Nil)

b) Credit commitments

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Irrevocable:				
Approved loans but undrawn loans	43,925	41,154	43,925	41,154
Loans available for redraw	309,417	312,107	309,417	312,107
	353,342	353,261	353,342	353,261
Revocable:				
Undrawn line of credit and credit card commitments	84,330	84,520	84,330	84,520
	84,330	84,520	84,330	84,520
	437,672	**437,781**	**437,672**	**437,781**

c) Bank commitments

Bank First guarantees the performance of certain Members by issuing guarantees or Transaction Negotiation Authorities to third parties in relation to payroll processing. The credit risk involved is managed through holding Term Deposits as collateral.

Notes to the financial statements

For the year ended 30 June 2018

d) Lease expenditure commitments

Bank First leases property at 117 Camberwell Road, Hawthorn East, under an operating lease expiring February 2023. Future minimum rentals payable are as follows:

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Within 1 year	2,531	2,423	140	33
1 to 5 years	9,894	9,390	466	19
Over 5 years	1,363	1,348	-	-
	13,788	**13,161**	**606**	**52**

e) Lease income receivables

The Consolidated Entity leases out part of one property under non-cancellable operating leases expiring June 2020.

Future minimum rental receivables are as follows:

Within 1 year	-	34	864	859
1 to 5 years	-	-	886	1,716
	-	**34**	**1,750**	**2,575**

20. Auditor's remuneration

Amounts paid or payable to Ernst & Young for*:

Audit fees and audit related fees				
Fees for audit of the complete set of financial statements	168	154	168	154
Securitisation reviews	15	15	15	15
Total audit and audit related fees	183	169	183	169
All other fees				
Tax related services	28	100	28	100
Other services	102	55	102	55
Total other fees	130	155	130	155
Total Auditor's Remuneration	**313**	**324**	**313**	**324**

Audit related and other services

Bank First engaged Ernst & Young during the financial year ending 30 June 2018 to provide a number of services in relation to taxation, reviews for loan securitisation and extended assurance services.

**Amounts included GST*

Notes to the financial statements

For the year ended 30 June 2018

21. Director and executive disclosures

a) Details of Key Management Personnel

(i) Directors

The following persons were Directors of Bank First during the financial year:

B. Lloyd	J. Dawson	P. Wilson
K. Starr	G. Willis	S. Terry
M. Monester	D. Temple	

(ii) Executives

The following executives were those persons with authority for implementing the strategic plan, and management of Bank First and its subsidiaries during the financial year:

W. Wolke - Chief Executive Officer

A. Alsbury - Chief Strategy & Marketing Officer

G. Borg - Chief People & Culture Officer

D. Percival - Chief Financial Officer

M. Thomson - Chief Technology Officer

E. Torelli - Chief Risk Officer

M. Ricker - Chief Customer Officer (Commenced Feb 18)

J. Ward - Executive Manager - Sales & Service (Resigned Jan 18)

b) Aggregate Compensation of Key Management Personnel

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Short-term employee benefits - salaries	3,143	2,853	3,143	2,853
Post-employment benefits - superannuation contributions	206	357	206	357
Other long-term benefits - long service leave	110	113	110	113
Total	**3,459**	**3,323**	**3,459**	**3,323**

Compensation includes all forms of consideration paid, payable or provided by Bank First and Consolidated Entity.

c) Directors' Remuneration
(included in 21b above)

A formal policy for Directors' remuneration was passed at the 2003 Annual General Meeting. It stated that the aggregate maximum sum determined at that meeting to be paid to Directors as remuneration for their services be adjusted for each following year by an amount not exceeding the amount determined by applying the Headline Consumer Price Index for the preceding year to the remuneration paid for the preceding year.

Aggregate remuneration paid to Directors	506	477	506	477

Notes to the financial statements

For the year ended 30 June 2018

d) Transactions with Key Management Personnel

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Loans				
Summary of transactions:				
New loans advanced	3,400	2,973	3,400	2,973
Interest and fees	179	154	179	154
Repayments	2,538	2,089	2,538	2,089
Revolving credit facilities:				
Total value extended	44	44	44	44
Balance utilised at 30 June	-	2	-	2
Loan and credit facilities:				
Balance owing at 30 June	**5,219**	**4,178**	**5,219**	**4,178**
Savings and term deposit services:				
Amounts deposited at 30 June	**2,314**	**801**	**2,314**	**801**

Loans and revolving line of credit facilities are made to Key Management Personnel (KMP) in the course of ordinary business on normal commercial terms and conditions. These include secured and unsecured loans. Loans must be repaid and paid out in cash or cash equivalents. No loan or line of credit is impaired and no loan has been written off as a bad debt.

Savings and term deposit services are extended to KMP in the course of ordinary business on normal commercial terms and conditions.

Transactions with KMP relate to the KMP in place at any time in each financial year.

The KMP have declared that they have no influence over, or are influenced by, close family members or other related parties that have lending or banking relationships with the Consolidated Entity. These close family members or related parties conduct transactions with the Consolidated Entity on normal terms and conditions offered to all other members.

e) Shareholdings

Each of the Directors and executives comprising the KMP of the Consolidated Entity hold one withdrawable share as a Member of the Consolidated Entity. No dividends have been declared or paid by the Consolidated Entity on the withdrawable Member shares (as distinct from the Tier 1 preference shares).

22. Financial risk management

Effective risk management is fundamental to the operations of the Consolidated Entity. A comprehensive risk management process is in place which involves identifying, understanding and managing the risks associated with its activities. Risk awareness, controls and compliance is embedded into day-to-day activities and each individual is accountable for the risk exposures relating to his or her role and responsibilities. The Consolidated Entity's risk management is underpinned by an integrated framework of responsibilities and functions driven from the Board level down to operational levels, covering all material risks.

The material risks associated with the Consolidated Entity's core activities have been identified. Included in these are the financial risks of credit risk, non-traded market risk and liquidity risk. Operational risks such as Regulatory & Legal, Outsourcing, and Information Technology are how the Consolidated Entity executes the delivery of products and achieves its strategic objectives. Strategic risks are focused on our current strategic plans.

The Consolidated Entity's overall risk management approach seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity and to protect the interests of its Members.

All activities undertaken are consistent with the Consolidated Entity's purpose and objectives.

This note presents information about the Consolidated Entity's exposure to the material risks mentioned above and the objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout this note and this complete set of financial statements.

Notes to the financial statements

For the year ended 30 June 2018

Risk management structure

Board of Directors:
The Board of Directors is responsible for ensuring risks are identified and controlled, for setting the overall risk appetite, approving the Risk Management Strategy, and approving key risk management policies.

Risk & Compliance Committee:
The Risk & Compliance Committee has been delegated oversight of the risk management framework and the implementation of policies, strategies, systems and processes. It is responsible for monitoring key risk issues including compliance requirements and monitors relevant risk decisions.

Audit Committee:
The Audit Committee is responsible for the effectiveness and integrity of the financial reporting framework and the overall internal control framework.

Risk & Governance Management Function:
The Risk & Governance functional team is responsible for developing, implementing and maintaining defined risk, compliance and governance related frameworks, policies, and procedures to ensure an independent oversight process, and for regular risk reporting to the Risk and Compliance Committee.

Asset & Liability Committee (ALCO):
ALCO is a management committee responsible for oversight and decision making in relation to interest rate risk, and oversight of the structure and mix of, the Consolidated Entity's assets and liabilities. It is also responsible for managing the funding needs and liquidity risks of the Consolidated Entity.

Internal Audit & External Audit:
Risk management processes throughout the Consolidated Entity are audited regularly by the Internal and External Audit functions, examining both the effectiveness and the adequacy of the process, procedures and controls and the Consolidated Entity's compliance with the procedures. Internal & External Audit discuss the results of all assessments with management and report their findings and recommendations to the Audit Committee.

a) Credit risk management

Credit risk is the risk that the Consolidated Entity will incur a loss due to Members, clients or counterparties default on their contractual obligations, or there is a deterioration in the credit quality of third parties to which the Consolidated Entity is exposed. The Consolidated Entity manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual and related counterparties and by monitoring exposures in relation to such limits.

To manage, measure and mitigate credit risk, the Consolidated Entity has separate lending and credit control functions, which operate under Board approved delegated limits and policies and procedures that comply with the prudential standards issued by APRA, and responsible lending requirements issued by ASIC.

The major classes of financial assets that expose the Consolidated Entity to credit risk are loans to Members (including undrawn and unused credit commitments), deposits with banks and other investments held with third parties.

The fundamental principles that the Consolidated Entity applies to mitigate credit risk include:

- loans are extended to Members on the basis of a consistent and comprehensive credit assessment process;
- deposits with banks and other financial institutions are governed by their external risk rating and the type of investment product;
- Board approved delegated limits, approval levels, policies and procedures. Policies are consistent with the prudential standards issued by APRA;
- regular monitoring of credit risk exposures once facilities have been approved;
- regular reporting of credit risk exposures to Executive Management and the Board;
- an analysis of related risks including concentration and large exposure risk; and
- regular internal audit reviews.

Notes to the financial statements

For the year ended 30 June 2018

(i) Exposure to credit risk

		Bank First		Consolidated Entity	
	Notes	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
The table below shows the maximum exposure to credit risk before taking into account any collateral or other credit enhancements:					
Cash and cash equivalents	4	40,990	47,187	40,990	47,187
Trade and other receivables	5	2,896	2,456	2,972	2,530
Deposits with banks	6	381,591	292,207	381,591	292,207
Deposits with authorised deposit-taking institutions	6	85,917	78,741	85,917	78,741
Loans secured by real estate mortgages	7	1,872,089	1,769,038	1,872,089	1,769,038
Government guaranteed loans	7	278	417	278	417
Other loans and advances	7	78,001	82,887	78,001	82,887
Other investments	9	4,195	4,149	686	686
		2,465,957	**2,277,082**	**2,462,524**	**2,273,693**
Irrevocable credit commitments	19	353,342	353,261	353,342	353,261
		353,342	**353,261**	**353,342**	**353,261**
Total credit risk exposure		**2,819,299**	**2,630,343**	**2,815,866**	**2,626,954**

(ii) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the requirements of the Consolidated Entity's policies. Guidelines are implemented regarding the acceptability of type of collateral and valuation parameters. Real estate mortgages are held for all loans classified as loans secured by real estate mortgages.

Goods mortgages are held as collateral over certain other loans and advances totalling $39.7m (2017: $48.9m) but the realisable or fair value of the related assets is impracticable to determine.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The credit risk on financial assets which have been recognised in the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for impairment, and is shown gross before the effect of mitigation through use of collateral. Credit risk relating to investments is monitored and controlled by exposure limits to counterparties. These limits are determined by reference to third party credit ratings.

Loan receivables are largely secured by physical property and advanced on a conservative Loan to Value Ratio (LVR) basis. Lenders Mortgage Insurance is generally taken out for any residential mortgages with a LVR in excess of 80%. At the end of the reporting period, the weighted average LVR (measured as current exposure divided by recorded collateral value) on mortgage loans is: 52.09% (2017:52.25%). Accordingly, the financial effect of these measures is that remaining credit risk on loans receivable is very low. Some lending products are unsecured (e.g. personal loans). The Consolidated Entity manages its exposure to these unsecured products by making an internal assessment in relation to the credit quality of the customer, taking into account their financial position, past experience and other factors. For financial (liquid) investments, only those securities assessed as being of at least a satisfactory credit grade are accepted.

Notes to the financial statements

For the year ended 30 June 2018

(iii) Concentration of Risk

The loan portfolio of the Consolidated Entity does not include individual loans, or groups of related loans that represent greater than 10% of capital. An analysis of the concentration of the Consolidated Entity's loans and advances by geographic location is provided below.

Geographic concentration of loans

	Bank First		Consolidated Entity	
	30 June 2018 $000's	30 June 2017 $000's	30 June 2018 $000's	30 June 2017 $000's
Victorian residents	91%	96%	91%	96%
Other Australian and overseas residents	9%	4%	9%	4%
	100%	100%	100%	100%

(iv) Credit quality

The table below shows the credit quality of financial assets for the Consolidated Entity:

		Neither past due or impaired		Past Due or	
		High grade	Other grade	Impaired	Total
	Notes	$000's	$000's	$000's	$000's
2018					
Cash and cash equivalents	4	40,990	-	-	40,990
Trade and other receivables	5	2,845	127	-	2,972
Deposits with banks	6	381,591	-	-	381,591
Deposits with authorised deposit-taking institutions	6	85,917	-	-	85,917
Loans secured by real estate mortgages	7	1,803,951	66,468	1,670	1,872,089
Government guaranteed loans	7	278	-	-	278
Other loans and advances	7	-	76,543	1,458	78,001
Other investments	9	-	686	-	686
		2,315,572	**143,824**	**3,128**	**2,462,524**
2017					
Cash and cash equivalents	4	47,187	-	-	47,187
Trade and other receivables	5	2,393	137	-	2,530
Deposits with banks	6	292,207	-	-	292,207
Deposits with authorised deposit-taking institutions	6	78,741	-	-	78,741
Loans secured by real estate mortgages	7	1,668,659	98,952	1,427	1,769,038
Government guaranteed loans	7	417	-	-	417
Other loans and advances	7	-	81,623	1,264	82,887
Other investments	9	-	686	-	686
		2,089,604	**181,398**	**2,691**	**2,273,693**

Financial assets that are neither past due or impaired are those assets which are complying in full with their contractual obligations, and excludes loans which have fallen into arrears by 30 days or more. Conversely, all financial assets that are not complying with their contractual obligations, or are 30 days or more in arrears, are defined as past due or impaired.

Financial assets that are neither past due or impaired are classified between those assets that are high grade and not high grade (other grade). To define what is a high grade financial asset, the Consolidated Entity has referred to the prudential standards issued by APRA in particular APS 112 which categorises the asset by likelihood of default. APS112 applies risk-weighted percentages to indicate the quality of assets. A risk-weight of 50% or less indicates higher quality assets and this in addition to not being impaired has been applied to define high grade assets for the above tables.

Notes to the financial statements

For the year ended 30 June 2018

(v) Credit risk exposure - investments with banks and other ADIs

			Bank First		Consolidated Entity	
	Standard & Poors or equivalent rating		2018	2017	2018	2017
	Long -term	Short-term	$000's	$000's	$000's	$000's
- Banks and Mutual Banks	AA- to AA	A1+	75,250	47,000	75,250	47,000
- Banks and Mutual Banks	A- to A+	A2 to A1	58,308	58,435	58,308	58,435
- Banks and Mutual Banks	BBB- to BBB+	A2	177,256	186,772	177,256	186,772
- Banks and Mutual Banks	Unrated	Unrated	70,777	-	70,777	-
- Credit Unions and Building Societies	BBB- to BBB+	A2 to A3	67,200	69,524	67,200	69,524
- Credit Unions and Building Societies	Unrated	Unrated	11,500	2,000	11,500	2,000
- Indue Ltd	Unrated	Unrated	7,217	7,217	7,217	7,217
			467,508	**370,948**	**467,508**	**370,948**

By type of investment				
- Negotiable certificates of deposit	136,165	94,267	136,165	94,267
- Term deposits	114,717	62,217	114,717	62,217
- Fixed rate notes and floating / variable rate notes	216,626	214,464	216,626	214,464
	467,508	**370,948**	**467,508**	**370,948**

Unrated investments are deposits held with counterparties that have not obtained an external rating with Standard & Poors or similar rating agencies. These investments have been assessed and are considered a high grade investment.

Notes to the financial statements

For the year ended 30 June 2018

(vi) Ageing analysis of past due loans (Bank First and Consolidated Entity)

The table below show the ageing analysis of past due and impaired loans.

		Past due days			
	Note	**0-90 $000's**	**91-365 $000's**	**>365 $000's**	**Total $000's**
2018					
Loans secured by real estate mortgages not assessed as individually impaired		1,324	304	42	1,670
Other loans and advances not assessed as individually impaired		145	48	4	197
Loans individually impaired	7	285	260	734	1,279
		1,754	**612**	**780**	**3,146**
2017					
Loans secured by real estate mortgages not assessed as individually impaired		1,379	49	-	1,428
Other loans and advances not assessed as individually impaired		216	140	32	388
Loans individually impaired	7	59	427	389	875
		1,654	**616**	**421**	**2,691**

b) Market risk - Interest rate risk

Market risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (changes in underlying market risk factors such as interest rates, equity markets, bond markets, commodity markets and exchange rates) between now and a future point in time.

As the Consolidated Entity does not participate in the bond or equities market or engage in foreign exchange transactions, it is the non-traded interest rate risk in our banking book, resulting from increases or decreases in interest rates arising from the execution of our core business strategies and the delivery of products and services to Members, which has the potential for major risk impact on the Consolidated Entity's net interest earnings and sensitivity to changes in economic value.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows, the fair value of financial instruments, or the net interest margin.

The fundamental principles that the Consolidated Entity applies to mitigate interest rate risk are:

- maintaining a net interest margin that is adequate for the achievement of short and longer-term objectives with respect to profitability and capital accumulation;
- Board approved delegated limits, approval levels, policies and procedures;
- maintaining an Asset Liability Committee (ALCO) to review portfolio growth, economic conditions and markets, review interest rate risk metrics reports, determine pricing and advise interest rate changes to the Board;
- forecasting and scenario modelling of growth and interest rates;
- monitoring current and future interest rate yields on its loans, deposits and investments portfolio and effect on profit and equity; and
- use of hedging techniques through interest rate swaps (derivatives).

Notes to the financial statements

For the year ended 30 June 2018

Sensitivity to interest rate risk:

The Consolidated Entity also measures on a monthly basis the stress sensitivity of earnings to interest rate movements, utilising an Earnings at Risk (EaR) sensitivity calculation. The calculation involves the measuring of the static interest rate repricing gaps arising as a result of the varying interest rate repricing characteristics of assets, liabilities and capital, and the impact, over a 12 month period, of a 1% and 2% interest rate increase and 1% and 2% interest rate decrease on earnings arising from the static gap position. The information below shows Bank First's and Consolidated Entity's stress sensitivity to interest rates utilising EaR sensitivity (+/-1% change):

The major classes of financial assets and liabilities that are subject to interest rate variation are loans to members, cash with banks, investments and deposits from members. The interest rates on the major proportion of these assets and liabilities can be adjusted in the short-term to minimise any significant impact of mis-match on interest margins.

	Interest rate movement			
	Bank First		Consolidated Entity	
	2018	2017	2018	2017
	+1%	+1%	-1%	-1%
	$000's	$000's	$000's	$000's
Post Tax Earnings at risk	2,243	2,724	(2,273)	(2,751)

c) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will encounter difficulty in meeting obligations, especially in the short term, associated with financial and certain other liabilities that are settled by delivering cash or another financial asset. Sources of liquidity risk include unforeseen withdrawals of demand deposits, restricted access to new funding sources with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset, and a sudden increased demand for loans.

The fundamental principles that the Consolidated Entity applies to mitigate liquidity risk are to:

- maintain a significant portfolio of readily redeemable high quality liquid investments consistent with the prudential standards issued by APRA;
- maintain a prudent balance of cash and cash equivalents to meet its operational needs;
- measure liquidity levels on a daily basis and report to management;
- manage assets with their liquidity in mind and monitor future cash flows and liquidity on a monthly basis;
- Board approved delegated limits, approval levels, policies and procedures;
- report liquidity levels and future trends to the Asset and Liability Committee and Board; and
- maintain a liquidity contingency plan, liquidity contingency facilities and a retain run plan.

The Consolidated Entity is required by APRA to maintain at least 9% of total adjusted liabilities as Minimum Liquidity Holdings (MLH). MLH includes deposits held with other Authorised Deposit Taking Institutions capable of being converted to cash within 2 business days under APRA prudential standards. The Consolidated Entity policy is to maintain at least 12% as MLH. The MLH ratio at 30 June 2018 was 14.43% (2017: 13.92%).

Notes to the financial statements

For the year ended 30 June 2018

Maturity profile of financial liabilities

The tables below summarise the maturity profile of Bank First and Consolidated Entity's financial liabilities at balance date based on contractual undiscounted repayment obligations. Bank First and Consolidated Entity do not expect the majority of Members to request repayment on the earliest date that Bank First and Consolidated Entity could be required to pay, and the tables do not reflect the expected cash flows indicated by Bank First and Consolidated Entity's deposit retention history.

Bank First **Year ended 30 June 2018**	**On demand** **$000's**	**Within 1 month** **$000's**	**1 to 3 months** **$000's**	**3 months to 1 year** **$000's**	**1 to 5 years** **$000's**	**Total**
Deposits	1,354,253	171,349	324,225	376,177	58,022	2,284,026
Trade and other payables	-	8,550	2,345	2,721	420	14,036
	1,354,253	**179,899**	**326,570**	**378,898**	**58,442**	**2,298,062**
Year ended 30 June 2017						
Deposits	1,235,579	173,734	296,914	343,505	57,182	2,106,914
Trade and other payables	-	7,578	2,198	2,543	423	12,742
Subordinated debt	-	-	-	2,000	-	2,000
	1,235,579	**181,312**	**299,112**	**348,048**	**57,605**	**2,121,656**
Consolidated Entity **Year ended 30 June 2018**						
Deposits	1,351,837	171,349	324,225	376,177	58,022	2,281,610
Trade and other payables	-	8,614	2,345	2,721	420	14,100
	1,351,837	**179,963**	**326,570**	**378,898**	**58,442**	**2,295,710**
Year ended 30 June 2017						
Deposits	1,233,361	173,734	296,914	343,505	57,182	2,104,696
Trade and other payables	-	7,664	2,198	2,543	423	12,828
Subordinated debt	-	-	-	2,000	-	2,000
	1,233,361	**181,398**	**299,112**	**348,048**	**57,605**	**2,119,524**

Notes to the financial statements

For the year ended 30 June 2018

Maturity profile of commitments

The table below shows the contractual expiry of Bank First's and Consolidated Entity's credit commitments.
The contractual expiry of Bank First's and Consolidated Entity's lease commitments is detailed in note 19(d).
The Consolidated Entity does not expect all of the commitments to be drawn before the expiry of the commitments.

	Within 1 year $000's	More than 1 Year $000's	Total $000's
Credit Commitments			
2018			
Approved but undrawn loans	43,925	-	43,925
Undrawn line of credit and credit card commitments	-	84,330	84,330
Loans available for redraw	3	309,414	309,417
	43,928	**393,744**	**437,672**
2017			
Approved but undrawn loans	41,154	-	41,154
Undrawn line of credit and credit card commitments	-	84,520	84,520
Loans available for redraw	38	312,069	312,107
	41,192	**396,589**	**437,781**

Geographic concentration of members' deposits

	Bank First		Consolidated Entity	
	2018	**2017**	**2018**	**2017**
Victorian residents	95%	93%	95%	93%
Other Australian and overseas residents	5%	7%	5%	7%
	100%	100%	100%	100%

Concentration of Financial Liability Risk

The deposit portfolio of the Company does not include any deposits or groups of deposits that represents a material concentration in terms of the source of liability.

Notes to the financial statements

For the year ended 30 June 2018

23. Fair value measurement

According to AASB 13 'Fair Value Measurement', fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

The best evidence of fair value is a quoted market price in an active market. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or rely on inputs which are reasonable assumptions based on market conditions.

Under AASB 13 all financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The classification in the fair value hierarchy of Bank First and the Consolidated Entity's financial assets and liabilities measured at fair value and amortised cost.

Other than Investments held to maturity being categorised in level 2, all other financial assets and financial liabilities are categorised in level 3. The fair value of the financial assets and financial liabilities are not materially different to the carrying amount disclosed in the financial report.

24. Regulatory Capital

The regulatory capital requirements of Bank First comprises Victoria Teachers Limited and APRA approved subsidiaries (Extended Licence Entity), effectively the Consolidated Entity.

Common Equity Tier 1 (CET1) Capital comprises the highest quality components of Capital. For Bank First and Consolidated Entity Tier 1 Capital is primarily comprised of retained earnings.

Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses. Tier 2 Capital is primarily comprised of the reserve for credit losses.

The capital ratio can be affected by growth in assets relative to growth in retained earnings and by changes in the quality and mix of assets. The Consolidated Entity manages capital through reviewing the ratio monthly and monitoring major movements in asset levels. Further, capital projections are undertaken maintained to assess how strategic decisions or trends may impact on the level of capital.

The primary objectives of the Consolidated Entity's capital management plan are to ensure that the Consolidated Entity complies with APRA's capital requirements and that the Consolidated Entity maintains sound capital ratios in order to support its business risks and to maximise Member value.

The Consolidated Entity manages its internal capital levels for both current and future activities by conducting an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, and maintaining a Capital Management Plan. The plan addresses the capital requirements prescribed by APRA, the strategy for managing capital resources over time, a capital target, how the required capital requirement is to be met and actions and procedures for monitoring compliance with minimum capital adequacy requirements. The capital strategy primarily focuses on building accumulated retained earnings.

Capital adequacy is determined as a ratio of the capital base to the Consolidated Entity's risk weighted exposures. Risk weighted exposures comprises all assets and certain other credit commitments, discounted by regulatory prescribed factors as appropriate, to reflect the lower risk profile of certain assets and commitments. APRA requires all regulated entities, including the Consolidated Entity to include an amount to recognise exposure to operational risk.

Notes to the financial statements

For the year ended 30 June 2018

	Consolidated Entity 30 June 2018 $000's	Consolidated Entity 30 June 2017 $000's
The Consolidated Entity manages as capital the following:		
Comprehensive income & other Reserves	186,616	174,635
Retained Earnings, including current year	11,911	12,017
Common Equity Tier 1 Capital (CET1) before regulatory adjustments	**198,527**	**186,652**
Capitalised expenses and intangibles	(4,167)	(3,447)
Deferred tax asset (net)	(1,898)	(626)
Cash flow hedge	103	368
Equity exposures to other financial institutions	(686)	(686)
Common Equity Tier 1 Capital (CET1)	**191,879**	**182,261**
Tier 1 Capital	**191,879**	**182,261**
Total Tier 2 Capital	7,164	6,863
Total Regulatory Capital	**199,043**	**189,124**
Risk weighted exposures	**1,277,894**	**1,208,160**
Capital adequacy ratio (%)	**15.58**	**15.65**

During the year, Bank First and the Consolidated Entity has complied in full with all capital requirements and met its capital targets.

Full details on the disclosure required under APS 330 Public Disclosure are provided on Bank First's website.

25. Events after the reporting period

The Moonee Ponds property held for sale settled on 3 August 2018. There are no other transactions or events of a material nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

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Independent Auditor's Report to the Members of Victoria Teachers Limited

Opinion

We have audited the financial report of Victoria Teachers Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2018;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

In our opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and
b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Brett Kallio
Partner
Melbourne

25 September 2018

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