



# Annual Report 2017

Murrumbeena Community  
Financial Services Limited

ABN 47 104 667 361

# Contents

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<b>Chairman's report</b>	<b>2</b>
<b>Manager's report</b>	<b>4</b>
<b>Bendigo and Adelaide Bank report</b>	<b>5</b>
<b>Director's report</b>	<b>6</b>
<b>Autitor's independence declaration</b>	<b>10</b>
<b>Financial statements</b>	<b>11</b>
<b>Notes to the financial statements</b>	<b>15</b>
<b>Directors' declaration</b>	<b>33</b>
<b>Independent audit report</b>	<b>34</b>

# Chairman's report

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## For year ending 30 June 2017

Over many years it has been our community banks privilege to interact with many wonderful people and organisations who at their very heart are striving to build better communities for everyone. Across our nation some 6.1 million people give of their time and skills in some capacity to help others. A truly staggering statistic which deserves to be acknowledged and applauded.

Within this statistic are the 2,000 directors and supporters of our more than 313 **Community Bank**<sup>®</sup> branches across Australia which have contributed well over \$165m back into their local towns and communities. In our Murrumbidgee district your branch has been able to invest over \$1.7m directly back into clubs and organisations which makes a difference in areas such as homelessness, grief counselling, sporting clubs, disability services, health, mental health, youth services and education just to name a few.

Increasingly customers are looking for alternatives to large companies who's philosophy does not align with the customers own core values. Bendigo Bank and its community bank network has set itself apart by being driven by the desire to do good in the community to the mutual benefit of all.

In the very early days when Rob Hunt proposed that a strong and sustainable business could be built on ethics and community success he was roundly disbelieved but some 18 years later Murrumbidgee **Community Bank**<sup>®</sup> is a shining example of that vision of doing good in the community.

With the support of its shareholders and a very loyal customer base the branch in Neerim Road has been able to deliver on its goal to provide the village with superior banking services whilst being a hub of community interaction.

The removal of the level crossing which commenced last year has brought many challenges. Traders have reported significant decline in patronage due to increased traffic and decreased parking options. Some local residents have elected to leave the area whilst others are committed to seeing the project through in the hope that the new development will enhance the local amenity and solve the ongoing traffic congestion.

Our business has not been unduly effected in terms of the branches ongoing lending and business operations however we have seen a considerable drop in foot traffic into the branch. Bendigo Bank has seen a fall in transactional banking across the network so this drop in customer attendance may not be only attributed to the construction work in the area and the bank is making significant investments into alternate ways to interact with our customer base such as SMS technology and improvements to internet banking options. It is forecast that within 5 to 10 years banking will be very different and across the network new and innovative ways of creating value for our customers are being implemented to ensure our business remains robust and sustainable into the future. What will not change however is people's need for specialist advice from a trusted financial partner and this is very much our point of difference.

We have had another very strong year having settled just over \$34m but after discharges and amortisation there was \$8.6m in lending growth and \$1.4m in deposit growth. Across nearly all key performance indicators the branch achieved its targets with total footings of \$174m. As the banking offering becomes more diversified our staff need to be skilled in more than just the traditional teller duties. It is pleasing to note that our staff at Murrumbidgee are routinely awarded for their customer service and skill levels which year on year ensures that the Murrumbidgee branch continues to be successful. Built on this success it gives me great pleasure to announce that we will be paying a dividend of 11cents per share fully franked.

This year the branch welcomed Keith Rawdin to its ranks to take up the vacant Customer Relationship Role. Keith worked with the team and provided much needed support with the lending book over the eight months he was with our branch. Keith was then offered a new role within the bank which he accepted. We thank Keith for the assistance he provided to our Branch Manager during a very busy and challenging time. We also thank Jason Grubb who left us in June to pursue a change of career and we wish him every success.

During the year our much loved and long term staff member Lorraine Crabb retired to spend time with family and do a bit of travelling. Lorraine is a true community champion and took it upon herself to get to know our customers and ensure that if there were a need that the branch was able to help. During the very hot days Lorraine would call our older customers to ensure they were in good health. If there was something to celebrate

### For year ending 30 June 2017

such as a birthday or wedding anniversary Lorraine would ensure a card was sent to the customers involved. So many little things that added up to Lorraine making a huge difference in our community. We thank Lorraine for her passion and dedication and we know she will not be a stranger to our branch or the local community – in fact you will see her volunteering at the local Lions op shop and helping Moongala Community House. Good on you Lorraine.

Whilst speaking of people who have made a valuable contribution to our business I would like, on behalf of our Board of Directors, to thank Nick Scott, in his role as treasurer ensured that the board had the necessary financial information to make informed and strategic decisions whilst ensuring the faith our shareholders placed in our business was never taken for granted. Nick resigned from the board in October 2016 to pursue other interests and we wish the very best for the future.

With yet another strong business performance over the last 12 months I would like to recognise the commitment and dedication of our staff, Sue Foley, Karen Dewberry and Chris English who have continued to build our business and provide quality service to our customers despite staffing restructures and increasing compliance requirements from the bank and its governing body APRA.

Everyone at Murrumbeena **Community Bank**<sup>®</sup> has a role to play in the success of our organisation and the wider community and it is with great pride that I thank our Board of Directors, Elpis Korosidis, John Coulson, Russell Harper and Anthony Lee for providing good governance and an inspired strategic vision for our business. As CEO and Chair of our company I can testify to the many hours our directors volunteer within our business but also more broadly across the network. Our directors lead by example and are very present in many community events such as the local 'Relay for Life' and as members of many sporting clubs. I thank them for their selfless dedication to our branch.

In acknowledging the very special role our branch plays within our community it is incumbent on me to thank those who's inspiration and faith allowed the genesis of our bank and that is our shareholders without whom Rob Hunts vision for a truly community focused bank investing in the success of its community would have just remained a dream.



**Dennis Tarrant**  
**Chairman**



# Manager's report

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For year ending 30 June 2017

Every successful business has challenging times and Murrumbeena **Community Bank**<sup>®</sup> is no different in that respect. For our business this year it the challenges have been around our staffing structure and ensuring we had the right people to help build our business and take care of our customers.

With the departure of experienced three long serving staff in fairly quick succession due to retirement and promotions the leadership team needed to evaluate the needs of the branch now and into the future. During the year the branch saw some instability in its staffing, with Customer Relationship Manager Keith Rawdin accepting another role within the bank, but despite these difficulties the branch staff managed to once again deliver an exceptional lending effort and meet its overall business growth target.

A special thank you must be given to staff members Lorraine Crabb (now retired) Chris English (Customer Relationship Officer) and Karen Dewberry (Customer Service Officer) who generously took on more hours and responsibilities to help the branch continue with its customer service excellence and allow the lending team to continue to build the business book.

The current low interest rates has meant that our customers have the ability to be repaying their debt in a more accelerated manner leading to a large amount of amortised debt across the Branch's lending book. So whilst the branch settled \$34m in lending in the twelve months the lending book only grew by \$8.6m after discharges. It is clear that to grow the book the lending team needs to write \$4 for every \$1 in growth and this situation is not likely to change in the short term. With this in mind the board and Branch Manager agreed that more resources were needed to support the level of lending required which led to the branch advertising for a Branch Manager with me, as the current manager, being elevated to a Senior Manager role with a responsibility to develop more business opportunities.

The Board was fortunate to attract Daniel Dakic to our branch as newly appointed branch Manager. Daniel worked previously for Bendigo Bank and has been able to slip seamlessly into the role and is already making progress with our lending book and branch management.

With the staffing challenges largely behind us the branch is settling once again into its normal rhythm and we are looking forward to a very successful year in 2017/18 with a strong leadership and business development objective as well as the continued desire to create a harmonious workplace for our staff and centre of excellence for our customers banking experience.



**Susan Foley**  
**Branch Manager**

# Bendigo and Adelaide Bank report

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For year ending 30 June 2017

As we approach 20 years since the first **Community Bank**<sup>®</sup> branch opened its doors, it's timely to reflect on the role of our network's 70,000-strong shareholders and its army of nearly 2,000 passionate local Directors.

As a group of people you are a powerful force that continues to influence change both locally and nationally.

United for a shared purpose in your communities, you are making big things happen beyond the delivery of great banking products and services; you're creating jobs, helping businesses to thrive, solving problems and achieving outcomes that will make your communities better places to live and do business.

Amongst other things, you are providing hundreds of thousands of people in communities around Australia with new opportunities to:

- Play sport in new **Community Bank**<sup>®</sup> funded centres.
- Continue their education thanks to a **Community Bank**<sup>®</sup> scholarship.
- Seek treatment in hospitals closer to home with equipment funded through a **Community Bank**<sup>®</sup> grant.
- Reap the environmental benefits of **Community Bank**<sup>®</sup> funded solar panels and LED lighting, and
- Access mental health services for teenage children with a service supported by a local **Community Bank**<sup>®</sup> branch.

In fact, since the model's inception your investment in local communities exceeds \$165 million and that figure continues to grow every year. This amount excludes the significant co-investment on key projects that many companies have obtained from Government and other parties.

Nationally our voices are increasingly being heard, and our collaborative approach recognised and celebrated.

Representing us all at a recent forum at Canberra's Parliament House, Bendigo Bank's Managing Director and Chairman reinforced the significance of the **Community Bank**<sup>®</sup> model's achievements and called for regulatory change that would help us compete in a crowded and ever-evolving banking sector. Just two months later, the Federal Government announced a levy on Australia's biggest banks that is set to re-level the playing field as we've regularly advocated for.

But for us this is more than a levy. The Turnbull Government's announcement recognises the importance of customers having access to a robust, competitive and customer-focused banking sector. On this note Bendigo Bank was recently recognised as the banking provider of choice in the annual Mozo People's Choice Awards. Better yet, out of 110 banking providers nationally, we were the only bank recognised in all eight banking categories – and were rated the leading bank in six of those eight categories.

This is an extraordinary achievement for you and our bank. Not only does it demonstrate that, in the eyes of our customers, we are doing something right – it very clearly outlines that together we can continue to achieve results.

As we've long known, the more successful our customers are, the stronger our communities become. In this regard the **Community Bank**<sup>®</sup> model enables these outcomes for customers and communities, as increasingly recognised by more and more Australians.

So thank you for your investment in your local **Community Bank**<sup>®</sup> company, for your ongoing contribution and support, tireless advocacy and continued commitment to building strong local communities. Without this, our **Community Bank**<sup>®</sup> branches would be just another bank.



**Robert Musgrove**  
Executive Engagement Innovation

# Director's report

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Your directors submit the financial statements of the company for the financial year ended 30 June 2017.

## Directors

The names and details of the company's directors who held office during or since the end of the financial year:

Dennis Keith Tarrant

Chair

Occupation: Chief Executive Officer

Qualifications, experience and expertise: Chairman and CEO with experience in banking, finance and administration. Dennis has previously worked in hospitality management, consulting and wholesale distribution.

Special responsibilities: Member of the Community Investment, Marketing and Strategic Planning Committees

Interest in shares: 501

Russell James Harper

Secretary

Occupation: Senior Operations Account Manager

Qualifications, experience and expertise: Bachelor of Business (Business Administration). Senior account manager and manager financial services, with experience in corporate change management and risk management.

Special responsibilities: Compliance Committee

Interest in shares: Nil

John Charles Coulson

Director

Occupation: Education Consultant – Part Time

Qualifications, experience and expertise: College Principal - Retired, Education Consultant - Part Time, President of Lions Club, Governor of the Shrine of Remembrance.

Special responsibilities: Member of the Community Investment, Marketing and Strategic Planning Committees

Interest in shares: Nil

Anthony Gerard Lee

Director

Occupation: Director - Real Estate Agent

Qualifications, experience and expertise: Local business owner and estate agent. Director Thomson Real Estate. Licensed Real Estate Agent with local property experience.

Special responsibilities: Deputy Chair, Property Committee, Share Liaison Officer

Interest in shares: 1,001

Elpis Korosidis

Director

Occupation: Lawyer

Qualifications, experience, expertise: Bachelor of Law. Bachelor of Arts. Advanced Diploma of Family Law. Banking and Finance Law.

Special responsibilities: Human Resources Committee

Interest in shares: Nil

Penni Alison Nicholls

Director (*Resigned 30 August 2016*)

Occupation:

Qualifications, experience and expertise: Certificate IV in Training & Development. Social Worker. Channel Manager. Category Manager. Previous director of Energy Assured Ltd.

Special responsibilities: Marketing Committee

Interest in shares: Nil

Other directorships: Energy Assured Limited

# Director's report (continued)

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Nicholas Roland Scott

Director (*Resigned 5 October 2016*)

Occupation: Financial Controller

Qualifications, experience and expertise: Bachelor of Business (Accounting). Diploma of Financial Services. Fellow of CPA Australia. Specialist in Hospitality, Shared Services, Process Improvement and Administrative Efficiencies.

Special responsibilities: Treasurer, Audit Committee

Interest in shares: 8,000

Directors were in office for this entire year unless otherwise stated.

No directors have material interests in contracts or proposed contracts with the company.

## Company Secretary

The company secretary is Russell Harper. Russell was appointed to the position of secretary on 17 February 2014.

Russell has a Bachelor of Business with Skills in operations management strategic planning and execution, risk management and compliance. He also has more than 25 years financial services experience.

## Principal Activities

The principal activities of the company during the financial year were in facilitating **Community Bank®** services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Limited.

There have been no significant changes in the nature of these activities during the year.

## Operating results

Operations have continued to perform in line with expectations. The profit of the company for the financial year after provision for income tax was:

Year ended 30 June 2017	Year ended 30 June 2016
\$	\$
42,894	94,636

## Dividends

Dividends paid in the year:

Year ended 30 June 2017	
Cents	\$
10	59,486

## Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

## Events since the end of the financial year

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company the results of those operations or the state of affairs of the company, in future years.

## Likely developments

The company will continue its policy of facilitating banking services to the community.

# Director's report (continued)

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The company is not subject to any significant environmental regulation.

## Directors' benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 21 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body

## Indemnification and insurance of directors and officers

The company has indemnified all directors and the manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors or manager of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

## Directors' meetings

The number of directors' meetings attended by each of the directors of the company during the year were:

	Board Meetings Attended	
	<u>Eligible</u>	<u>Attended</u>
Dennis Keith Tarrant	12	12
John Charles Coulson	12	7
Russell James Harper	12	9
Anthony Gerard Lee	12	10
Elpis Korosidis	12	8
Penni Alison Nicholls ( <i>Resigned 30 August 2016</i> )	2	2
Nicholas Roland Scott ( <i>Resigned 5 October 2016</i> )	3	3

## Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Director's report (continued)

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The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the board to ensure they do not impact on the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the board of directors at Murrumbeena, Victoria on 4 September 2017.



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Dennis Keith Tarrant, Chair

# Auditor's independence declaration

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**Partners in success**

**Chartered Accountants**

61 Bull Street, Bendigo 3550  
PO Box 454, Bendigo 3552  
03 5443 0344  
afsbendigo.com.au

## **Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Murrumbeena Community Financial Services Ltd**

As lead auditor for the audit of Murrumbeena Community Financial Services Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

**Andrew Frewin Stewart**  
61 Bull Street, Bendigo Vic 3550  
Dated: 4 September 2017

**David Hutchings**  
**Lead Auditor**

# Financial statements

## Statement of Comprehensive Income for the Year Ended 30 June 2017

	Notes	2017 \$	2016 \$
Revenue from ordinary activities	4	1,222,557	1,112,258
Employee benefits expense		(564,581)	(549,440)
Charitable donations, sponsorship, advertising and promotion		(362,364)	(213,522)
Occupancy and associated costs		(78,656)	(60,884)
Systems costs		(21,859)	(21,610)
Depreciation and amortisation expense	5	(23,029)	(25,279)
Finance costs	5	(20)	(18)
General administration expenses		(110,265)	(108,702)
<b>Profit before income tax expense</b>		<b>61,783</b>	<b>132,803</b>
Income tax expense	6	(18,889)	(38,167)
<b>Profit after income tax expense</b>		<b>42,894</b>	<b>94,636</b>
<b>Total comprehensive income for the year attributable to the ordinary shareholders of the company:</b>			
		<b>42,894</b>	<b>94,636</b>
<b>Earnings per share</b>		<b>¢</b>	<b>¢</b>
Basic earnings per share	22	7.21	15.91

The accompanying notes form part of these financial statements



# Financial statements (continued)

## Balance sheet as at 30 June 2017

	Notes	2017 \$	2016 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	332,485	362,741
Trade and other receivables	8	102,415	87,359
Current tax asset	11	5,709	-
<b>Total Current Assets</b>		<b>440,609</b>	<b>450,100</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	83,085	92,372
Intangible assets	10	22,905	36,647
Deferred tax asset	11	6,246	8,920
<b>Total Non-Current Assets</b>		<b>112,236</b>	<b>137,939</b>
<b>Total Assets</b>		<b>552,845</b>	<b>588,039</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	33,926	36,498
Current tax liabilities	11	-	18,712
Provisions	13	31,566	26,774
<b>Total Current Liabilities</b>		<b>65,492</b>	<b>81,984</b>
<b>Non-Current Liabilities</b>			
Provisions	13	4,540	6,650
<b>Total Non-Current Liabilities</b>		<b>4,540</b>	<b>6,650</b>
<b>Total Liabilities</b>		<b>70,032</b>	<b>88,634</b>
<b>Net Assets</b>		<b>482,813</b>	<b>499,405</b>
<b>Equity</b>			
Issued capital	14	565,517	565,517
Accumulated losses	15	(82,704)	(66,112)
<b>Total Equity</b>		<b>482,813</b>	<b>499,405</b>

The accompanying notes form part of these financial statements

# Financial statements (continued)

## Statement of changes in equity for the year ended 30 June 2017

	Issued Capital \$	Accumulated Losses \$	Total Equity \$
<b>Balance at 1 July 2015</b>	565,517	(160,748)	404,769
Total comprehensive income for the year	-	94,636	94,636
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	-	-
<b>Balance at 30 June 2016</b>	<b>565,517</b>	<b>(66,112)</b>	<b>499,405</b>
<b>Balance at 1 July 2016</b>	565,517	(66,112)	499,405
Total comprehensive income for the year	-	42,894	42,894
<b>Transactions with owners in their capacity as owners:</b>			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(59,486)	(59,486)
<b>Balance at 30 June 2017</b>	<b>565,517</b>	<b>(82,704)</b>	<b>482,813</b>

The accompanying notes form part of these financial statements

# Financial statements (continued)

## Statement of cashflows for the year ended 30 June 2017

	Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,323,587	1,190,299
Payments to suppliers and employees		(1,260,922)	(1,068,221)
Interest received		7,221	9,782
Interest paid		(20)	(18)
Income taxes paid		(40,636)	(24,332)
<b>Net cash provided by operating activities</b>	16	<b>29,230</b>	<b>107,510</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(59,486)	(59,486)
<b>Net cash used in financing activities</b>		<b>(59,486)</b>	<b>(59,486)</b>
<b>Net increase/(decrease) in cash held</b>		<b>(30,256)</b>	<b>48,024</b>
Cash and cash equivalents at the beginning of the financial year		362,741	314,717
<b>Cash and cash equivalents at the end of the financial year</b>	7(a)	<b>332,485</b>	<b>362,741</b>

The accompanying notes form part of these financial statements

# Notes to the financial statements

For the Year Ended 30 June 2017

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## Note 1. Summary of significant accounting policies

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### a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the *Corporations Act 2001*. The company is a for-profit entity for the purpose of preparing the financial statements.

#### *Compliance with IFRS*

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

#### *Comparative figures*

Where required by Australian Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

#### *Application of new and amended accounting standards*

There are a number of amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) that became mandatorily effective for accounting periods beginning on or after 1 July 2016, and are therefore relevant for the current financial year.

None of these amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

There are also a number of accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that become effective in future accounting periods.

The company has elected not to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2016. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

Only AASB 16 Leases, effective for the annual reporting period beginning on or after 1 January 2019 is likely to impact the company. This revised standard will require the branch lease to be capitalised.

#### *Economic dependency - Bendigo and Adelaide Bank Limited*

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branch at Murrumbreena, Victoria.

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank®** branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branch are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (*continued*)

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### a) Basis of preparation (*continued*)

#### *Economic dependency - Bendigo and Adelaide Bank Limited (continued)*

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

The company promotes and sells the products and services, but is not a party to the transaction.

The credit risk (i.e. the risk that a customer will not make repayments) is for the relevant Bendigo and Adelaide Bank Limited entity to bear as long as the company has complied with the appropriate procedures and relevant obligations and has not exercised a discretion in granting or extending credit.

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branch franchise operations. It also continues to provide ongoing management and operational support and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

- advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branch
- training for the branch manager and other employees in banking, management systems and interface protocol
- methods and procedures for the sale of products and provision of services
- security and cash logistic controls
- calculation of company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

### b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

#### *Revenue calculation*

The franchise agreement provides that three forms of revenue may be earned by the company – margin, commission and fee income. Bendigo and Adelaide Bank Limited decides the form of revenue the company earns on different types of products and services.

The revenue earned by the company is dependent on the business that it generates. It may also be affected by other factors, such as economic and local conditions, for example, interest rates.

#### *Core banking products*

Bendigo and Adelaide Bank Limited has identified some Bendigo Bank Group products and services as 'core banking products'. It may change the products and services which are identified as core banking products by giving the company at least 30 days' notice. Core banking products currently include Bendigo Bank branded home loans, term deposits and at call deposits.

# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (*continued*)

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### b) Revenue (*continued*)

#### *Margin*

Margin is arrived at through the following calculation:

- Interest paid by customers on loans less interest paid to customers on deposits
- *plus* any deposit returns i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit,
- *minus* any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Margin is paid on all core banking products. A funds transfer pricing model is used for the method of calculation of the cost of funds, deposit return and margin.

The company is entitled to a share of the margin earned by Bendigo and Adelaide Bank Limited (i.e. income adjusted for Bendigo and Adelaide Bank Limited's interest expense and interest income return). However, if this reflects a loss, the company incurs a share of that loss.

#### *Commission*

Commission is a fee paid for products and services sold. It may be paid on the initial sale or on an ongoing basis. Commission is payable on the sale of an insurance product such as home contents. Examples of products and services on which ongoing commissions are paid include leasing and Sandhurst Trustees Limited products.

#### *Fee income*

Fee income is a share of what is commonly referred to as 'bank fees and charges' charged to customers by Bendigo Bank Group entities including fees for loan applications and account transactions.

#### *Discretionary financial contributions*

In addition to margin, commission and fee income, and separate from the franchise agreement, Bendigo and Adelaide Bank Limited has also made discretionary financial payments to the company. These are referred to by Bendigo and Adelaide Bank Limited as a "Market Development Fund" (MDF).

The amount has been based on the volume of business attributed to a branch. The purpose of the discretionary payments is to assist with local market development activities, including community sponsorships and donations. It is for the board to decide how to use the MDF.

The payments from Bendigo and Adelaide Bank Limited are discretionary and Bendigo and Adelaide Bank Limited may change the amount or stop making them at any time.

#### *Ability to change financial return*

Under the franchise agreement, Bendigo and Adelaide Bank Limited may change the form and amount of financial return that the company receives. The reasons it may make a change include changes in industry or economic conditions or changes in the way Bendigo and Adelaide Bank Limited earns revenue.

The change may be to the method of calculation of margin, the amount of margin, commission and fee income or a change of a margin to a commission or vice versa. This may affect the amount of revenue the company receives on a particular product or service. The effect of the change on the revenue earned by the company is entirely dependent on the change.

If Bendigo and Adelaide Bank Limited makes a change to the margin or commission on core banking products and services, it must not reduce the margin and commission the company receives on core banking products and services Bendigo and Adelaide Bank Limited attributes to the company to less than 50% (on an aggregate basis) of Bendigo and Adelaide Bank Limited's margin at that time. For other products and services, there is no restriction on the change Bendigo and Adelaide Bank Limited may make.

Bendigo and Adelaide Bank Limited must give the company 30 days' notice before it changes the products and services on which margin, commission or fee income is paid, the method of calculation of margin and the amount of margin, commission or fee income.



# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (*continued*)

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### b) Revenue (*continued*)

#### *Monitoring and changing financial return*

Bendigo and Adelaide Bank Limited monitors the distribution of financial return between **Community Bank®** companies and Bendigo and Adelaide Bank Limited on an ongoing basis.

Overall, Bendigo and Adelaide Bank Limited has made it clear that the **Community Bank®** model is based on the principle of shared reward for shared effort. In particular, in relation to core banking products and services, the aim is to achieve an equal share of Bendigo and Adelaide Bank Limited's margin.

### c) Income tax

#### *Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### *Deferred tax*

Deferred tax is accounted for using the balance sheet liability method on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the company entity intends to settle its tax assets and liabilities on a net basis.

#### *Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### d) Employee entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The company contributes to a defined contribution plan. Contributions to employee superannuation funds are charged against income as incurred.

# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (*continued*)

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### e) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

### f) Trade receivables and payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

### g) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- leasehold improvements	40	years
- plant and equipment	2.5 - 40	years

### h) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

The renewal processing fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

### i) Payment terms

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

### j) Borrowings

All loans are initially measured at the principal amount. Interest is recognised as an expense as it accrues.

### k) Financial instruments

#### *Recognition and initial measurement*

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.



# Notes to the financial statements (continued)

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## Note 1. Summary of significant accounting policies (*continued*)

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### k) Financial instruments (*continued*)

#### *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

#### *Classification and subsequent measurement*

##### (i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

##### (ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

##### (iii) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

#### *Impairment*

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

### l) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

### n) Contributed equity

Ordinary shares are recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

# Notes to the financial statements (continued)

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## **Note 1. Summary of significant accounting policies (*continued*)**

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### **o) Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### **p) 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 incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Cash flows are included in the Statement of Cash Flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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## **Note 2. Financial risk management**

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The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

### **(i) Market risk**

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

### **(ii) Price risk**

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

### **(iii) Credit risk**

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

### **(iv) Liquidity risk**

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

### **(v) Cash flow and fair value interest rate risk**

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

# Notes to the financial statements (continued)

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## **Note 2. Financial risk management (*continued*)**

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### (vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the Balance Sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

The distribution limit is the greater of:

- (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2017 can be seen in the Statement of Profit or Loss and Other Comprehensive Income.

There were no changes in the company's approach to capital management during the year.

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## **Note 3. Critical accounting estimates and judgements**

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Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

### *Taxation*

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty. There is therefore a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the Statement of Profit or Loss and Other Comprehensive Income.

# Notes to the financial statements (continued)

## Note 3. Critical accounting estimates and judgements (continued)

### *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### *Impairment of assets*

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Note 4. Revenue from ordinary activities	2017 \$	2016 \$
Operating activities:		
- gross margin	1,002,049	772,521
- services commissions	94,042	184,519
- fee income	105,235	97,345
- market development fund	10,000	50,000
Total revenue from operating activities	<u>1,211,326</u>	<u>1,104,385</u>
Non-operating activities:		
- interest received	11,231	7,873
Total revenue from non-operating activities	<u>11,231</u>	<u>7,873</u>
Total revenues from ordinary activities	<u><u>1,222,557</u></u>	<u><u>1,112,258</u></u>

## Notes to the financial statements (continued)

Note 5.	Expenses	2017 \$	2016 \$
	Depreciation of non-current assets:		
	- plant and equipment	4,449	5,033
	- leasehold improvements	4,838	6,504
	Amortisation of non-current assets:		
	- franchise agreement	2,291	2,291
	- franchise renewal fee	11,451	11,451
		<u>23,029</u>	<u>25,279</u>
	Finance costs:		
	- interest paid	<u>20</u>	<u>18</u>
	Bad debts	<u>129</u>	<u>66</u>

Note 6.	Income tax expense		
	The components of tax expense comprise:		
	- Current tax	16,216	36,314
	- Movement in deferred tax	2,673	6,268
	- Adjustment to deferred tax to reflect change to tax rate in future periods	-	322
	- Under/(Over) provision of tax in the prior period	-	(4,737)
		<u>18,889</u>	<u>38,167</u>
	The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
	Operating profit	61,783	132,803
	Prima facie tax on profit from ordinary activities at 27.5% (2016: 28.5%)	16,991	37,849
	Add tax effect of:		
	- non-deductible expenses	1,898	232
	- timing difference expenses	(2,673)	(1,767)
		<u>16,216</u>	<u>36,314</u>
	Movement in deferred tax	2,673	6,268
	Adjustment to deferred tax to reflect change of tax rate in future periods	-	322
	Under/(Over) provision of income tax in the prior year	-	(4,737)
		<u>18,889</u>	<u>38,167</u>

Note 7.	Cash and cash equivalents		
	Cash at bank and on hand	112,894	145,798
	Term deposits	219,591	216,943
		<u>332,485</u>	<u>362,741</u>

## Notes to the financial statements (continued)

<b>Note 7.(a) Reconciliation to cash flow statement</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
Cash at bank and on hand	112,894	145,798
Term deposits	219,591	216,943
	<u>332,485</u>	<u>362,741</u>

<b>Note 8. Trade and other receivables</b>		
Trade receivables	86,832	80,043
Prepayments	11,528	7,271
Other receivables and accruals	4,055	45
	<u>102,415</u>	<u>87,359</u>

<b>Note 9. Property, plant and equipment</b>		
Leasehold improvements		
At cost	102,527	102,527
Less accumulated depreciation	(53,946)	(49,108)
	<u>48,581</u>	<u>53,419</u>
Plant and equipment		
At cost	87,875	87,875
Less accumulated depreciation	(53,371)	(48,922)
	<u>34,504</u>	<u>38,953</u>
Total written down amount	<u>83,085</u>	<u>92,372</u>

### Movements in carrying amounts:

Leasehold improvements		
Carrying amount at beginning	53,419	59,923
Additions	-	-
Disposals	-	-
Less: depreciation expense	(4,838)	(6,504)
Carrying amount at end	<u>48,581</u>	<u>53,419</u>
Plant and equipment		
Carrying amount at beginning	38,953	43,986
Additions	-	-
Disposals	-	-
Less: depreciation expense	(4,449)	(5,033)
Carrying amount at end	<u>34,504</u>	<u>38,953</u>
Total written down amount	<u>83,085</u>	<u>92,372</u>

## Notes to the financial statements (continued)

<b>Note 10. Intangible assets</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Franchise fee		
At cost	82,930	82,930
Less: accumulated amortisation	(79,112)	(76,822)
	<u>3,818</u>	<u>6,108</u>
Renewal processing fee		
At cost	114,645	114,645
Less: accumulated amortisation	(95,558)	(84,106)
	<u>19,087</u>	<u>30,539</u>
Total written down amount	<u>22,905</u>	<u>36,647</u>

<b>Note 11. Tax</b>		
<b>Current:</b>		
Income tax payable/(refundable)	<u>(5,709)</u>	<u>18,712</u>
<b>Non-Current:</b>		
Deferred tax assets		
- accruals	715	715
- employee provisions	14,329	14,692
	<u>15,044</u>	<u>15,407</u>
Deferred tax liability		
- accruals	1,115	12
- property, plant and equipment	7,683	6,475
	<u>8,798</u>	<u>6,487</u>
Net deferred tax asset	<u>6,246</u>	<u>8,920</u>
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	<u>2,673</u>	<u>6,592</u>

<b>Note 12. Trade and other payables</b>		
<b>Current:</b>		
Trade creditors	14,194	4,603
Other creditors and accruals	19,732	31,895
	<u>33,926</u>	<u>36,498</u>



# Notes to the financial statements (continued)

Note 13. Provisions	2017	2016
	\$	\$
<b>Current:</b>		
Provision for annual leave	24,355	19,062
Provision for long service leave	7,211	7,712
	<u>31,566</u>	<u>26,774</u>
<b>Non-Current:</b>		
Provision for long service leave	<u>4,540</u>	<u>6,650</u>

Note 14. Contributed equity		
594,857 ordinary shares fully paid (2016: 594,857)	594,857	594,857
Less: equity raising expenses	(29,340)	(29,340)
	<u>565,517</u>	<u>565,517</u>

Rights attached to shares

(a) *Voting rights*

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank®** branch have the same ability to influence the operation of the company.

(b) *Dividends*

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) *Transfer*

Generally, ordinary shares are freely transferable. However, the directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the company's constitution and the *Corporations Act 2001*.



# Notes to the financial statements (continued)

## Note 14. Contributed equity (continued)

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the company.

In summary, a person has a prohibited shareholding interest if they control or own 10% or more of the shares in the company (the "10% limit").

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The board has the power to request information from a person who has (or is suspected by the board of having) a legal or beneficial interest in any shares in the company or any voting power in the company, for the purpose of determining whether a person has a prohibited shareholding interest. If the board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the board is authorised to sell the specified shares on behalf of that person. The holder will be entitled to the consideration from the sale of the shares, less any expenses incurred by the board in selling or otherwise dealing with those shares.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

Note 15. Accumulated losses	2017	2016
	\$	\$
Balance at the beginning of the financial year	(66,112)	(160,748)
Net profit from ordinary activities after income tax	42,894	94,636
Dividends paid or provided for	(59,486)	-
Balance at the end of the financial year	<u>(82,704)</u>	<u>(66,112)</u>

## Note 16. Statement of cash flows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

Profit from ordinary activities after income tax	42,894	94,636
Non cash items:		
- depreciation	9,287	11,537
- amortisation	13,742	13,742
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(15,056)	(18,888)
- (increase)/decrease in other assets	(3,035)	6,592
- increase/(decrease) in payables	(2,572)	(6,845)
- increase/(decrease) in provisions	2,682	(507)
- increase/(decrease) in current tax liabilities	(18,712)	7,243
Net cash flows provided by operating activities	<u>29,230</u>	<u>107,510</u>

## Notes to the financial statements (continued)

<b>Note 17. Leases</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	37,462	45,239
- between 12 months and 5 years	28,096	79,168
	<u>65,558</u>	<u>124,407</u>

The Murrumbena community bank lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. This lease will expire in March 2019 and has another 5 year option available once expired.

<b>Note 18. Auditor's remuneration</b>		
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,200	4,100
- non audit services	3,293	3,182
- share registry services	2,390	2,420
	<u>9,883</u>	<u>9,702</u>

### **Note 19. Director and related party disclosures**

The names of directors who have held office during the financial year are:

Dennis Keith Tarrant  
 Russell James Harper  
 John Charles Coulson  
 Anthony Gerard Lee  
 Elpis Korosidis  
 Penni Alison Nicholls (*Resigned 30 August 2016*)  
 Nicholas Roland Scott (*Resigned 5 October 2016*)

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

<b>Directors Shareholdings</b>	<b>2017</b>	<b>2016</b>
Dennis Keith Tarrant	501	501
Russell James Harper	-	-
John Charles Coulson	-	-
Anthony Gerard Lee	1,001	1,001
Elpis Korosidis	-	-
Penni Alison Nicholls ( <i>Resigned 30 August 2016</i> )	-	-
Nicholas Roland Scott ( <i>Resigned 5 October 2016</i> )	8,000	5,000

# Notes to the financial statements (continued)

Note 20. Dividends paid or provided	2017	2016
	\$	\$
<b>a. Dividends paid during the year</b>		
2017: 100% (2016: 100%) franked dividend - 10 cents (2016: 10 cents) per share	<u>59,486</u>	<u>59,486</u>
The tax rate at which dividends have been franked is 27.5% (2016: 30%).		
<b>b. Franking account balance</b>		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	87,252	66,416
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(5,709)	18,712
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	<u>(22,563)</u>	<u>(25,494)</u>
Franking credits available for future financial reporting periods:	58,980	59,634
Net franking credits available	<u>58,980</u>	<u>59,634</u>

## Note 21. Key management personnel disclosures

### Key Management Personnel Remuneration

The directors received remuneration including superannuation, as follows:

Dennis Keith Tarrant	91,375	76,649
Russell James Harper	-	-
John Charles Coulson	-	-
Anthony Gerard Lee	-	-
Elpis Korosidis	-	-
Penni Alison Nicholls (Resigned 30 August 2016)	-	-
Nicholas Roland Scott (Resigned 5 October 2016)	-	-
	<u>91,375</u>	<u>76,649</u>

# Notes to the financial statements (continued)

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**Note 21. Key management personnel disclosures (continued)**

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Dennis Tarrant was appointed to the staff position of Chief Executive Officer of Murrumbeena Community Financial Services Limited on 1 October 2013.

Dennis Tarrant's remuneration is based on key performance indicators that relate to growth of footings, profit growth, staff engagement, development and retention, growth of community investment and appropriate allocation to strategic community partners, increased depth of community relationships and partnerships, community investment program return on investment, appropriate financial control for the business, good governance and compliance, succession planning and board engagement, development and retention. Dennis reports to the board of Murrumbeena Community Financial Services Limited. The position is 0.7 fulltime equivalent.

No other director of the company receives remuneration for services as a company director or committee member. No director's fees have been paid as the positions are held on a voluntary basis.

**Community Bank® Directors' Privileges Package**

The board has adopted the **Community Bank®** Directors' Privileges Package. The package is available to all directors, who can elect to avail themselves of the benefits based on their personal banking with the **Community Bank®** branch at Murrumbeena. There is no requirement to own BEN shares and there is no qualification period to qualify to utilise the benefits. The package mirrors the benefits currently available to Bendigo and Adelaide Bank Limited shareholders. The total benefits received by the directors from the Directors' Privilege Package are \$nil for the year ended 30 June 2017 (2016: \$nil).

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<b>Note 22. Earnings per share</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	42,894	94,636
	<b>Number</b>	<b>Number</b>
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	594,857	594,857

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**Note 23. Events occurring after the reporting date**

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There have been no events after the end of the financial year that would materially affect the financial statements.

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**Note 24. Contingent liabilities and contingent assets**

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There were no contingent liabilities or contingent assets at the date of this report to affect the financial statements.

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**Note 25. Commitments**

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The company has a commitment to provide sponsorship funds of \$3,000 per year for the next two financial years to the Oakleigh Bowling Club, totalling \$6,000.

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**Note 26. Segment reporting**

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The economic entity operates in the service sector where it facilitates **Community Bank®** services in Murrumbeena, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

## Notes to the financial statements (continued)

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### Note 27. Registered office/Principal place of business

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The entity is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office  
436 Neerim Road  
Murrumbeena VIC 3163

Principal Place of Business  
436 Neerim Road  
Murrumbeena VIC 3163

# Notes to the financial statements (continued)

## Note 28. Financial instruments

### Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for all financial instruments, as well as the settlement period for instruments with a fixed period of maturity and interest rate.

Financial instrument	Floating interest		Fixed interest rate maturing in						Non interest bearing		Weighted average	
			1 year or less		Over 1 to 5 years		Over 5 years					
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial assets												
Cash and cash equivalents	112,394	145,085	219,591	216,943	-	-	-	-	500	713	2.45	2.11
Receivables	-	-	-	-	-	-	-	-	86,832	80,043	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	14,194	4,603	N/A	N/A

### Net Fair Values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the balance sheet. The company does not have any unrecognised financial instruments at the year end.

### Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

### Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the interest bearing financial assets and liabilities in place subject to variable interest rates, as outlined above.

### Sensitivity Analysis

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

As at 30 June 2017, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2017	2016
	\$	\$
Change in profit/(loss)		
Increase in interest rate by 1%	3,320	3,620
Decrease in interest rate by 1%	(3,320)	(3,620)
Change in equity		
Increase in interest rate by 1%	3,320	3,620
Decrease in interest rate by 1%	(3,320)	(3,620)

# Directors' declaration

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## Murrumbeena Community Financial Services Limited Directors' Declaration

In accordance with a resolution of the directors of Murrumbeena Community Financial Services Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.



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Dennis Keith Tarrant, Chair

Signed on the 4th of September 2017.



# Independant audit report



Chartered Accountants

61 Bull Street, Bendigo 3550  
PO Box 454, Bendigo 3552  
03 5443 0344  
afsbendigo.com.au

## Independent auditor's report to the members of Murrumbeena Community Financial Services Ltd

### Report on the audit of the financial statements

#### Our opinion

In our opinion, the financial report of Murrumbeena Community Financial Services Ltd is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

#### What we have audited

Murrumbeena Community Financial Services Ltd's (the company) financial report comprises the:

- ✓ Statement of profit or loss and other comprehensive income
- ✓ Balance sheet
- ✓ Statement of changes in equity
- ✓ Statement of cash flows
- ✓ Notes comprising a summary of significant accounting policies and other explanatory notes
- ✓ The directors' declaration of the entity.

#### 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.

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We are independent of the Company 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 audit opinion.

#### Other information

The company usually prepares an annual report that will include the financial statements, directors' report and declaration and our independence declaration and audit report (the financial report). The annual

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# Independant audit report (continued)

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The directors are responsible for the other information. The annual report is expected to be made available to us after the date of this auditor's report.

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

Our responsibility is to read the other information identified above when it becomes available 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 we identify that a material inconsistency appears to exist when we read the annual report (or become aware that the other information appears to be materially misstated), we will discuss the matter with the directors and where we believe that a material misstatement of the other information exists, we will request management to correct the other information.

## **Directors' responsibility for the financial report**

The directors of the company are responsible for the preparation of the financial report so that it 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 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 ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibility 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. Misstatement can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/home.aspx>. This description forms part of our auditor's report.



**Andrew Frewin Stewart**  
61 Bull Street, Bendigo, 3550  
Dated: 4 September 2017



**David Hutchings**  
Lead Auditor

Murrumbeena  
**Community Bank®** Branch  
436 Neerim Road, Murrumbeena  
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