

# **BEROWRA & DISTRICT FINANCIAL SERVICES LIMITED**

ABN 62 116 755 938

## **ANNUAL REPORT 2018**



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## Chairman's Report

It is my pleasure as the Chairman of Berowra and District Financial Services Limited to report on the company's progress during the year ended 30 June, 2018.

The company had a year of solid performance with improved financial results, despite a cooling-off in the housing market and a continuation of the low interest rate environment and tight credit conditions.

The company has made good progress in continuing to build our portfolio, strengthening our engagement with the local community and efficiently managing expenses.

One new director joined the board during the financial year, Ms Elisabeth Goh and another Robert Wawrzyniak has joined us since.

In terms of the growing success of the company, I am once again hugely indebted to the enormous contribution of our people.

Thank you to our longstanding staff team, Danielle, Ruth, Lisa, Jenni and Wendy. They are the "face" of Berowra Community Bank® Branch who as a team managed the branch for the first four months of the financial year, whilst we were searching for and appointing a branch manager.

Thank you to our Board of Directors (all of whom volunteer many hours to the company) and to our partners at Bendigo Bank with whom we continue to enjoy a highly collaborative and supportive relationship, particularly our regional managers, John Carvin and Jim Crawford.

### Operating results

At 30 June 2018, the company banking business portfolio grew to \$93.4 million, which was up from \$89.4 million last year. This portfolio comprises of loans and deposits, whether home, business, investment or

person to local residents and businesses in the Berowra community.

Revenue though increased by 11,58% to \$719,170 and customer numbers rose by 2% to 3373.

Net profit before tax increased by 98.4% over last year to \$102,487.

This result was hard earned as existing customers continued to use the low interest rate environment to either fully or partially repay their loans, requiring the company to write more new business than last year, and in a softening housing market, just to replace the outflow. Well done to our staff for this achievement.

### Shareholder dividend

Whilst this year your company was able reduce its overdraft by \$123,532 to \$252,556 from \$376,088, the company is still not in a position to pay its shareholders a dividend.

A review recently carried out by our branch staff showed that only half of the owners of this company use its services. Why, if you own a business would you go somewhere else to get the service your own business provides? That's what half of the shareholders of this company are doing.

If you do not already bank with your branch, why not come into the branch, or call us to see what your business can do for you, because the more you use your company's services, the sooner your company can pay off the overdraft, and with positive equity, your board can begin to look at declaring a dividend.

### Community engagement

One of the fundamental elements of the Community Bank model is the engagement of the community bank branches in the community. This is a shared value model where support and engagement provided by

the Community Bank Company provides long term sustainable value to all parties.

The \$35,000 income provide by the Bendigo Bank Marketing Development Fund enabled the company to contribute \$31,671 into the community. Beneficiaries of this program included 4 local service groups, 8 local sport clubs and 8 local schools.

### **Outlook**

The near-term outlook is a challenging one with the likely continuation of a low interest rate environment, an apparent softening housing market, and tighter credit conditions as regulators and industry become more concerned about the level and serviceability of household debt. An added issue is of the reputation of the banking and finance industry continues to be negatively impacted by the Royal Commission and we await its final recommendations. On a positive note Bendigo and Adelaide Bank, with its strong community ethos and relatively strong brand, is well placed to compete against the major and other banking institutions.

Roman Tarnawsky

Chair

### **Conclusion**

Solid financial performance in 2017/18. This has been achieved through a clear focus on building the business, retaining our commitment to excellent customer service and community engagement, and through the hard work of highly engaged staff. The Board is committed to maintaining this ethos while investing in resources, capabilities and opportunities directed at our primary objective of building our loan portfolio and constantly improving operating efficiency.

Lastly, I would like to thank those of our shareholders who bank with us for your continued support of the Community Bank® model in Berowra. Your support as a customer and advocate of our Community Bank® branch remains vital in ensuring our growing success. I look forward to seeing as many shareholders as possible at our 2017/18 Annual General Meeting, which will be conducted at the Berowra Football Clubroom, Berowra Waters Road on Tuesday, 20 November, 2018 commencing at 6:00 pm.

## Shareholder Business Development Update

Dear Shareholders,

As head of the Business Development Committee and on behalf of the board I am writing to you to explain the strategy we adopted this past year to grow the business and our Community Cash program for the coming year. Also, in response to questioning from shareholders about spending on sponsorship when shareholders are yet to receive a dividend, I would like to demonstrate that shareholder interests are at the forefront of the board's consideration in these undertakings.

Last year the board agreed to focus marketing and sponsorship funds on the one thing that made our Branch different from other banks we competed with. This "Point of Difference" was the shared value that the Community Bank model was based on, profit sharing between the Shareholders, Community and Bendigo Bank. It is our competitive advantage and if we can effectively communicate this to the Community then we will see customer and business growth.

The proposition is simply that we support the Community through sponsorship, the Community supports us with business and Bendigo Bank provides the banking services by which to do this. As such we need to ensure that our sponsorship spending is with community groups that support our business, it is a symbiotic relationship which can bring significant benefits to both.

Our ability to mobilise community groups to promote our bank to their members has to date been mixed and below where we would like it to be on average. As such we are taking a different approach going forward, one which better aligns sponsorship support with the volume of new business we attract and in a way that reflects customer preferences in supporting the community.

We have called this program Community Cash. In simple terms it is a cash voucher program where customers initiating new business are given Community Cash and can elect which of our sponsored groups to give it to. So, community groups who direct members to bank with us will receive higher amounts of Community Cash and so align the support we give them with what they provide.

The good news for shareholders is that for every \$1 we provide in sponsorship we expect between \$3 and \$10 in revenue over the following 12 months and for loans it will be significantly more over the term of the loan. So, we are also aligning our spending on sponsorship with the growth of the business and as such the ability to pay for it and generate a growing profit.

It all comes back to our point of difference from other banks. Other banks will spend money on sponsorship to promote a community benefit but none will be able to claim that all profits go back to the community like we can. We just need to ensure everyone in our community knows this.

As a shareholder we know you understand, but we also need you to act on it by telling people in the community about the branch and Community Cash. Also, by being a customer. Currently only half of our shareholders bank with us, so come in open an account, check your current loans against what we can offer or compare our insurance offerings and credit cards.

Doing so will give you a chance to select a sponsored group to give Community Cash, obtain a better deal and grow our business to be able to pay dividends to shareholders. I look forward to seeing you at the coming AGM.

Yours sincerely,

Tom Collins    Director

## Bendigo and Adelaide Bank Ltd Report

### For year ending 30 June 2018

It's been 20 years since the doors to the first **Community Bank**<sup>®</sup> branch opened. And it has only been a few months since the latest, the 321st, **Community Bank**<sup>®</sup> branch opened its doors.

In the last 20 years, much has changed. A staggering 92 per cent of our customers do their banking online and we pay for goods and services on a range of mobile phones, our watches and even our fitness devices. Many are embracing this online world with a sense of excitement and confidence. Our model will be even more accessible to people right across Australia.

Despite the change many things have also remained constant through the last two decades. Commitment within communities remains as strong today as it has ever been; from our first **Community Bank**<sup>®</sup> branch to the most recent one, and the 319 in between.

This year, five of our Community Bank branches are celebrating 20 years in business. Bendigo Bank has celebrated 160 years in business. We farewelled Managing Director Mike Hirst and welcomed into the MD role long-time Bendigo employee Marnie Baker.

Our **Be the change** online marketing campaign has been the most successful online marketing campaign ever run by our organisation. The premise behind **Be the change** is simple – it thanks individual customers for banking with their **Community Bank**<sup>®</sup> branch.

But it's not the Bank thanking the customers. It's not the staff, volunteer directors or shareholders thanking the customers. It's the kids from the local little athletics and netball clubs, it's the man whose life was saved by a **Community Bank**<sup>®</sup> funded defib unit, it's members of the local community choir and the animal rescue shelter. These people whose clubs and organisations have received a share of over \$200 million in **Community Bank**<sup>®</sup> contributions, all because of people banking with their local **Community Bank**<sup>®</sup> branch.

**Be the change** has further highlighted the power of the model. For others, customers are important. For our **Community Bank**<sup>®</sup> network, customer support ensures our point of difference. It's the reason we can share in the revenue generated by their banking business. Without this point of difference, we would be just another bank.

But we're not, we're Bendigo Bank and we're Australia's only '*community bank*', recently named by Roy Morgan Research as Australia's third most trusted brand and most trusted bank. As one of 70,000-plus **Community Bank**<sup>®</sup> company shareholders across Australia, these are outcomes we hope you too are proud of.

I'd like to thank you for your decision to support your local **Community Bank**<sup>®</sup> company as a shareholder. Your support has been vitally important to enhancing the prospects and outcomes within your community.

Without you, there would be no **Community Bank**<sup>®</sup> branch network in Australia.

We value your initial contribution and your ongoing support of your **Community Bank**<sup>®</sup> branch and your community. Thank you for continuing to play a role in helping your community **Be the change**.

**Robert Musgrove**

**Bendigo and Adelaide Bank**

## Directors' Report

Your directors submit the financial statements of the company for the financial year ended 30 June 2018.

### Directors

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

<p><b>Roman Tarnawsky</b> Chair Occupation: Management Consultant Qualifications, experience and expertise: GAICD, Grad Dip Mgmt Admin, Dip Mechanical engineering, Dip Civil Engineering. Roman's career has provided experience in engineering, logistics and retail marketing, including franchising and business to business marketing. Roman was appointed to the board on 28 February 2017. Special responsibilities: Board Chair, Human Resources Committee Interest in shares: Nil</p>
<p><b>Gillian Reed</b> Director and Secretary Occupation: Accountant Qualifications, experience and expertise: Gillian owns an accounting practice providing accountancy and taxations services to sole traders, partnerships, companies, trusts and SMSFs. Member and Secretary of the Rotary Club of Thornleigh, member of Hornsby Chamber of Commerce, ASIC registered agent and Justice of the Peace. Special responsibilities: Treasurer (to March 2018), Audit &amp; Finance Committee. Interest in shares: Nil</p>
<p><b>Bruce John Waterhouse</b> Director Occupation: Retired Qualifications, experience and expertise: Bruce worked in the financial industry for 32 years, followed by 10 years in sports administration. He has been employed by Royal Agricultural Society of NSW on a casual basis for 42 years. He has been involved in football as a player, coach and official for almost 60 years. He is a life member of Berowra Football Club as well as Lindfield Football Club and Northern Suburbs Football Association. Special responsibilities: Audit &amp; Finance Committee Interest in shares: Nil</p>
<p><b>Gregory Steptoe</b> Director Occupation: Retired Qualifications, experience and expertise: Gregory is a retired public service administrator, a qualified Justice of the Peace, and the Treasurer of the Berowra Football Club. Special responsibilities: Human Resources Committee Interest in shares: Nil</p>

## Directors' Report continued

### **Thomas Zachary Collins**

Director (*Appointed 30 August 2017*)

Occupation: Self-employed

Accountant

Qualifications, experience and expertise: Thomas is currently running a private investment business, following a 20 year career in accounting and management with companies including PriceWaterhouse Coopers, Volvo, Pacific Brands, Coleman Brands, and finally as Finance Director for Australia and New Zealand, first for Pure Fishing Australia and then for Jarden Australia, a subsidiary of a Fortune 500 NYSX listed company. Thomas is a chartered accountant by profession. He has continually worked with or as part of company executive management, initially as a member of the Institute of Chartered Accountants in Australia, and more recently as a member of the Chartered Institute of Management Accountants. He has been an active member of the Mt Ku-ring-gai RFS Brigade, managed and coached for the Mt Colah Colts Football Club, lived in Mt Ku-ring-gai for over 10 years, and his children attend Mt Ku-ring-gai Public School.

Special responsibilities: Treasurer (from March 2018), Business Development Committee, Audit & Finance Committee

Interest in shares: Nil

### **Elisabeth Patama Sher Fung Goh**

Director (*Appointed 29 March 2018*)

Occupation: Policy Officer, Department of Justice

Qualifications, experience and expertise: Elisabeth has been named and awarded one of Australia's 30 Under 30 Entrepreneurs and the Blackmore's Maurice Whelan Women and Wellbeing member in 2018 for her work with young people. As a passionate advocate and speaker for mental health, she has used her skills as the community engagement manager of Art of Smart Education and as Policy Officer at NSW Victims Services in the space of policy and legal reform.

Special responsibilities: Business Development Committee

Interest in shares: Nil

### **Paul Anthony Cook**

Director (*Resigned 31 December 2017*)

Occupation: Self-funded retiree

Qualifications, experience and expertise: Paul holds a Bachelor of Applied Science (Computing) and professional project management qualifications (PMP - PMBOK, Prince 2, MSP). He has 5 years experience in developing retail and front-end banking systems at Metway, 7 years in management and consulting services for superannuation, client identification and compliance at Australian Tax Office, and 6 years experience as a program and project manager for various Federal and State departments.

Special responsibilities: Marketing Committee, Succession Planning, Outer Sydney Cluster (Marketing)

Interest in shares: Nil

\* - interest in shares includes shares held by spouse

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

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



## Directors' Report continued

### Company Secretary

The company secretary is Gillian Reed. Gillian was appointed to the position of secretary on 12 January 2012. Gillian is an accountant and has been a sole practitioner for the past 26 years. She is also a Justice of the Peace.

### Principal Activities

The principal activities of the company during the financial year were 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 2018	Year ended 30 June 2017
\$	\$
74,304	321,069

### Dividends

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

### 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.

### Environmental regulation

The company is not subject to any significant environmental regulation.

## Directors' Report continued

### 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.

### 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

	Directors' Meetings	
	<u>Eligible</u>	<u>Attended</u>
Roman Tarnawsky	12	12
Gillian Reed	12	9
Bruce John Waterhouse	12	11
Gregory Steptoe	12	7
Thomas Zachary Collins ( <i>Appointed 30 August 2017</i> )	10	10
Elisabeth Patama Sher Fung Goh ( <i>Appointed 29 March 2018</i> )	4	4
Paul Anthony Cook ( <i>Resigned 31 December 2017</i> )	5	4

### 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*.

## Directors' Report continued

### Non audit services

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, in accordance with the advice received from the audit committee 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 audit committee 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.

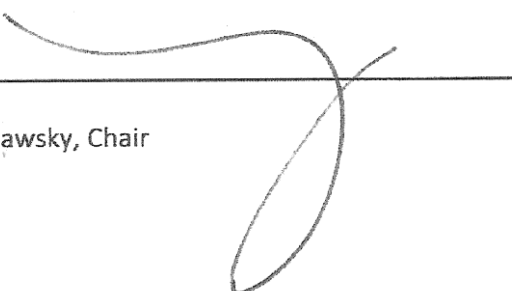
### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12

Signed in accordance with a resolution of the board of directors at Berowra, New South Wales on 7 September 2018

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Roman Tarnawsky, Chair



## Auditor's Independence declaration



### **Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Berowra & District Financial Services Limited**

As lead auditor for the audit of Berowra & District Financial Services Limited for the year ended 30 June 2018, 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: 7 September 2018

**David Hutchings**  
Lead Auditor

## Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	719,170	644,558
Employee benefits expense		(332,090)	(309,215)
Charitable donations, sponsorship, advertising and promotion		(31,671)	(35,793)
Occupancy and associated costs		(138,753)	(134,720)
Systems costs		(19,882)	(17,226)
Depreciation and amortisation expense	5	(24,545)	(24,308)
Finance costs	5	(5,335)	- -
General administration expenses		(64,407)	(71,641)
<b>Profit before income tax expense</b>		<b>102,487</b>	<b>51,655</b>
Income tax (expense)/credit	6	(28,183)	269,414
<b>Profit after income tax expense</b>		<b>74,304</b>	<b>321,069</b>
<b>Total comprehensive income for the year attributable to the ordinary shareholders of the company:</b>		<b>74,304</b>	<b>321,069</b>
<b>Earnings per share</b>		<b>¢</b>	<b>¢</b>
Basic earnings per share	22	9.79	42.28

The accompanying notes form part of these financial statements

## Balance Sheet as at 30 June 2018

		2018	2017
	Notes	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	644	368
Trade and other receivables	8	62,910	69,019
<b>Total current assets</b>		<b>63,554</b>	<b>69,387</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	126,349	137,443
Intangible assets	10	43,423	56,874
Deferred tax asset	11	241,231	269,414
<b>Total non-current assets</b>		<b>411,003</b>	<b>463,731</b>
<b>Total assets</b>		<b>474,557</b>	<b>533,118</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	63,780	52,651
Borrowings	13	252,556	376,088
Provisions	14	22,673	13,855
<b>Total current liabilities</b>		<b>339,009</b>	<b>442,594</b>
<b>Non-current liabilities</b>			
Trade and other payables	12	31,725	47,588
Provisions	14	11,258	24,675
<b>Total non-current liabilities</b>		<b>42,983</b>	<b>72,263</b>
<b>Total liabilities</b>		<b>381,992</b>	<b>514,857</b>
<b>Net assets</b>		<b>92,565</b>	<b>18,261</b>
<b>EQUITY</b>			
Issued capital	15	728,537	728,537
Accumulated losses	16	(635,972)	(710,276)
<b>Total equity</b>		<b>92,565</b>	<b>18,261</b>

The accompanying notes form part of these financial statements

## Financials continued

**Statement of Changes in Equity for the year ended 30 June 2018**

	Issued Capital \$	Retained Earnings \$	Total Equity \$
<b>Balance at 1 July 2016</b>	728,537	(1,031,345)	(302,808)
Total comprehensive income for the year	-	321,069	321,069
<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 2017</b>	728,537	(710,276)	18,261
<b>Balance at 1 July 2017</b>	728,537	(710,276)	18,261
Total comprehensive income for the year	-	74,304	74,304
<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 2018</b>	728,537	(635,972)	92,565

The accompanying notes form part of these financial statements

## Financials continued

**Statement of Cash Flows for the year ended 30 June 2018**

	Notes	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		787,324	698,078
Payments to suppliers and employees		(647,374)	(624,849)
Intertest paid		(5,335)	-
<b>Net cash provided by operating activities</b>	17	<b>134,615</b>	<b>73,229</b>
<b>Cash flows from investing activities</b>			
Payments for intangible assets		(10,807)	(13,431)
<b>Net cash used in investing activities</b>		<b>(10,807)</b>	<b>(13,431)</b>
<b>Cash flows from financing activities</b>			
Prepayment of Borrowings		-	(1,945)
<b>Net cash used in financing activities</b>		<b>-</b>	<b>(1,945)</b>
<b>Net increase in cash held</b>		<b>123,808</b>	<b>57,853</b>
Cash and cash equivalents at the beginning of the financial year		(375,720)	(433,573)
Cash and cash equivalents at the end of the financial year	7(a)	<b>(251,912)</b>	<b>(375,720)</b>

The accompanying notes form part of these financial statements



## Notes to the Financial Statements

### For the year ended 30 June 2018

<b>Note 1.</b>	<b>Summary of significant accounting policies</b>
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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 2017, and are therefore relevant for the current financial year.

AASB 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This accounting standard is not expected to have a material impact on the financial statements.

AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. This accounting standard is not expected to have a material impact on the financial statements.

There are also a number of accounting standards and interpretations issued by the AASB that become effective in future accounting periods.

## Note 1 to the Financials continued

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

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 2017. These future accounting standards and interpretations therefore have no impact on amounts recognised in the current period or any prior period.

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 January 2019, the composition of the lease portfolio at that date, the latest assessment of whether the company will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the company will recognise new assets and liabilities for its operating lease of its branch. As at 30 June 2018, the company's future minimum lease payment under non-cancellable operating leases amount to \$400,956 on an undiscounted basis (see Note 18).

No significant impact is expected for the company's finance leases.

### *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**<sup>®</sup> branch at Berowra Heights, New South Wales.

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**<sup>®</sup> branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank**<sup>®</sup> branch are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

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**<sup>®</sup> 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 and assistance in relation to:

## Note 1 to the Financials continued

*Economic dependency - Bendigo and Adelaide Bank Limited continues*

- the design, layout and fit out of the **Community Bank**<sup>®</sup> 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.

#### *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.

## Note 1 to the Financials continued

### *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.

## Note 1 to the Financials 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 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 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 gain from a bargain purchase.

### **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.

## Note 1 to the Financials continued

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

### 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	5 - 15	years
plant and equipment	2.5 - 40	years
motor vehicle	3 - 5	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.

## Note 1 to the Financials continued

### 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.

#### *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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### *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) Financial liabilities

Financial liabilities include borrowings, trade and other payables and 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 of 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.

## Note 1 to the Financials continued

### n) Issued capital

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.

### 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.

<b>Note 2.</b>	<b>Financial risk management</b>
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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.



## Note 2 to the Financials continued

### (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.

### (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 2018 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.

<b>Note 3.</b>	<b>Critical accounting estimates and judgements</b>
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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.

## Note 3 to the Financials continued

### *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 carried-forward 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.

### *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 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.

## Notes to the Financials continued

<b>Note 4. Revenue from ordinary activities</b>	<b>2018</b>	<b>2017</b>
	\$	\$
Operating activities:		
- gross margin	602,121	499,334
- services commissions	24,354	38,645
- fee income	57,695	70,779
- market development fund	35,000	35,000
Total revenue from operating activities	<u>719,170</u>	<u>643,758</u>
Non-operating activities:		
- Other revenue	-	800
Total revenue from non-operating activities	<u>-</u>	<u>800</u>
Total revenues from ordinary activities	<u><u>719,170</u></u>	<u><u>644,558</u></u>

The market development fund is a discretionary income stream provided by our franchisor Bendigo and Adelaide Bank Limited and is calculated on the size of the deposits, loans and other financial products of the Company. The funds are to be spent on marketing, advertising, donations, sponsorship and grants to market the Community Bank.

<b>Note 5. Expenses</b>	<b>2018</b>	<b>2017</b>
	\$	\$
Depreciation of non-current assets:		
- plant and equipment	2,616	2,616
- leasehold improvements	6,236	6,236
- motor vehicle	2,242	2,872
Amortisation of non-current assets:		
- franchise agreement	2,258	2,316
- franchise renewal fee	11,193	10,268
	<u>24,545</u>	<u>24,308</u>
Finance costs		
- Interest Paid	5,335	-
	<u>180</u>	<u>302</u>
- Bad debts		

## Notes to the Financials continued

<b>Note 6. Income tax expense</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
		\$	\$
The components of tax expense comprise:			
- Recoupment of prior year tax losses		28,183	14,205
- Future income tax benefit brought to account		-	(283,619)
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income expense (credit) as follows			
Operating profit		102,487	51,655
Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)		28,183	14,205
Tax benefits brought to account-		-	(283,619)
		<u>28,183</u>	<u>(269,414)</u>
<b>Note 7. Cash and cash equivalents</b>		<b>2018</b>	<b>2017</b>
Cash at bank and on hand		644	368
<b>Note 7.(a) Reconciliation to cash flow statement</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		644	368
Bank overdraft	13	(252,556)	(376,088)
		<u>(251,912)</u>	<u>(375,720)</u>
<b>Note 8. Trade and other receivables</b>		<b>2018</b>	<b>2017</b>
Trade receivables		53,981	56,703
Prepayments		8,929	12,316
		<u>62,910</u>	<u>69,019</u>

## Notes to the Financials continued

<b>Note 9. Property, plant and equipment</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Leasehold improvements		
At cost	194,511	194,511
Less accumulated depreciation	(89,116)	(82,880)
	<u>105,395</u>	<u>111,631</u>
Plant and equipment		
At cost	73,516	73,516
Less accumulated depreciation	(52,562)	(49,946)
	<u>20,954</u>	<u>23,570</u>
Motor vehicles		
At cost	22,976	22,976
Less accumulated depreciation	(22,976)	(20,734)
	<u>-</u>	<u>2,242</u>
Total written down amount	<u>126,349</u>	<u>137,443</u>
<b>Movements in carrying amounts:</b>		
Leasehold improvements		
Carrying amount at beginning	111,631	117,867
Additions	-	-
Less: depreciation expense	(6,236)	(6,236)
Carrying amount at end	<u>105,395</u>	<u>111,631</u>
Plant and equipment		
Carrying amount at beginning	23,570	26,186
Additions	-	-
Disposals	-	-
Less: depreciation expense	(2,616)	(2,816)
Carrying amount at end	<u>20,954</u>	<u>23,570</u>
Motor vehicles		
Carrying amount at beginning	2,242	5,114
Additions	-	-
Less: depreciation expense	(2,242)	(2,872)
Carrying amount at end	<u>-</u>	<u>2,242</u>
Total written down amount	<u>126,349</u>	<u>137,443</u>

## Notes to the Financials continued

<b>Note 10. Intangible assets</b>	<b>2018</b>	<b>2017</b>
	\$	\$
Franchise fee		
At cost	32,746	32,746
Less: accumulated amortisation	(25,536)	(23,278)
	<u>7,210</u>	<u>9,468</u>
Renewal processing fee		
At cost	113,729	113,729
Less: accumulated amortisation	(77,516)	(66,323)
	<u>36,213</u>	<u>47,406</u>
Total written down amount	<u>43,423</u>	<u>56,874</u>

<b>Note 11. Tax</b>	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Non-Current:</b>		
Deferred tax assets		
- tax losses carried forward	241,231	269,414
Net deferred tax asset	<u>241,231</u>	<u>269,414</u>
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	<u>28,183</u>	<u>-</u>

<b>Note 12 Trade and other payables</b>	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Current:</b>		
Trade creditors	18,291	18,897
Other creditors and accruals	45,489	33,754
	<u>63,780</u>	<u>52,651</u>
<b>Non-Current:</b>		
Other creditors and accruals	<u>31,725</u>	<u>47,588</u>

<b>Note 13 Borrowings</b>	<b>2018</b>	<b>2017</b>
	\$	\$
<b>Current:</b>		
Bank overdrafts	252,556	376,088

The bank overdraft has an approved limit of \$550,000 and currently attracts an interest rate of 4.03% per agreement with Bendigo and Adelaide Bank Limited. No interest was paid on the overdraft during the 2017 financial year due to BABL granting an extended interest-free period. The bank overdraft is secured by a Registered First Company Debenture Mortgage from Berowra & District Financial Services Limited.

## Notes to the Financials continued

<b>Note 14. Provisions</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Current:</b>		
Provision for annual leave	12,865	13,855
Provision for long service leave	9,808	-
	<u>22,673</u>	<u>13,855</u>
<b>Non-Current:</b>		
Provision for long service leave	<u>11,258</u>	<u>24,675</u>
<b>Note 15. Issued capital</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
759,351 ordinary shares fully paid (2017: 759,351)	759,351	759,351
Less: equity raising expenses	(30,814)	(30,814)
	<u>728,537</u>	<u>728,537</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**<sup>®</sup> 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.

## Note 15 to the Financials continued

### (c) *Transfer continued*

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*.

### 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 any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 374. As at the date of this report, the company had 406 shareholders.

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.

<b>Note 16. Accumulated losses</b>	<b>2018</b>	<b>2017</b>
	\$	\$
Balance at the beginning of the financial year	(710,276)	(1,031,345)
Net profit from ordinary activities after income tax	74,304	321,069
Balance at the end of the financial year	<u>(635,972)</u>	<u>(710,276)</u>



## Notes to the Financials continued

<b>Note 17. Statement of cash flows</b>	<b>2018</b>	<b>2017</b>
	\$	\$
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	74,304	321,069
Non cash items:		
- depreciation	11,094	11,724
- amortisation	13,451	12,584
Changes in assets and liabilities:		
- (increase)/decrease in receivables	6,109	(16,177)
- (increase)/decrease in other assets	28,183	(269,414)
- increase/(decrease) in payables	6,073	9,222
- increase/(decrease) in provisions	(4,599)	4,221
Net cash flows provided by operating activities	<u>134,615</u>	<u>73,229</u>

<b>Note 18. Leases</b>	<b>2018</b>	<b>2017</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	123,371	119,352
- between 12 months and 5 years	277,585	387,896
- greater than 5 years	-	-
	<u>400,956</u>	<u>507,248</u>

The branch lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease is due to expire on 13 Jun 2022. There are two options to renew the lease for a further five years available to be exercised at the conclusion of each term.

<b>Note 19. Auditor's remuneration</b>	<b>2018</b>	<b>2017</b>
	\$	\$
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,400	5,300
- share registry services	1,885	1,885
- non audit services	2,425	1,910
	<u>8,710</u>	<u>9,095</u>

## Notes to the Financials continued

<b>Note 20. Director and related party disclosures</b>	<b>2018</b>	<b>2017</b>
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The names of directors who have held office during the financial year are:

Roman Tarnawsky

Gillian Reed

Bruce John Whitehouse

Gregory Steptoe

Thomas Zachary Collins (Appointed 30 August 2017)

Elisabeth Patama Sher Fung Goh (Appointed 29 March 2018)

Paul Anthony Cook (Resigned 31 December 2017)

No director or related entity has entered into a material contract with the company.

No director's fees have been paid as the positions are held on a voluntary basis.

<b>Directors Shareholdings</b>	<b>2018</b>	<b>2017</b>
Roman Tarnawsky	-	-
Gillian Reed	-	-
Bruce John Whitehouse	-	-
Gregory Steptoe	-	-
Thomas Zachary Collins (Appointed 30 August 2017)	-	-
Elisabeth Patama Sher Fung Goh (Appointed 29 March 2018)	-	-

There was movement in director's shareholdings during the year.

### Note 21. Key management personnel disclosures

No director of the company receives remuneration for services as a company director or committee member.

There are no executives within the company whose remuneration is required to be disclosed.

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 Berowra, New South Wales. 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 2018 (2017: \$nil).

<b>Note 22. Earnings per share</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	74,304	321,069
	<b>Number</b>	<b>Number</b>
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	759,361	759,361

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

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

## Notes to the Financials continued

### Note 24. Contingent liabilities and contingent assets

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

### Note 25. Segment reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in Berowra Heights New South Wales pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

### Note 26. Registered office/Principal place of business

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

Registered Office	Principal Place of Business
Suite 7	Shop 9 Berowra Village Centre
141 Peats Ferry Road	1C Turner Road
HORNSBY NSW 2077	BEROWRA HEIGHTS NSW 2082

### Note 27. Financial instruments

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					
	2018	2017	2018	2017	2018	2018	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Financial assets</b>												
Cash and cash equivalents	-	-	-	-	-	-	-	-	644	368	N/A	N/A
Receivables	-	-	-	-	-	-	-	-	53,981	56,703	N/A	N/A
<b>Financial liabilities</b>												
Interest bearing liabilities	252,556	376,088	-	-	-	-	-	-			1.72	nil
Payables	-	-	-	-	-	-	-	-	18,291	18,897	N/A	N/A

## Note 27 to the Financials continued

### *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 2018, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
Change in profit/(loss)		
Increase in interest rate by 1%	(2,526)	(3,761)
Decrease in interest rate by 1%	2,526	3,761
Change in equity		
Increase in interest rate by 1%	(2,526)	(3,761)
Decrease in interest rate by 1%	2,526	3,761

## Directors' declaration

In accordance with a resolution of the directors of Berowra & District 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 2018 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.

\_\_\_\_\_  
Roman Tarnawsky, Chair

Signed on the 7<sup>th</sup> of September 2018.

## Independent Auditor's 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 Berowra & District Financial Services Limited

#### Report on the audit of the financial statements

##### Our opinion

In our opinion, the financial report of Berowra & District Financial Services Limited 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 2018 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards.

##### What we have audited

Berowra & District Financial Services Limited'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 report may also include "other information" on the entity's operations and financial results and financial position as set out in the financial report, typically in a Chairman's report and Manager's report, and reports covering governance and shareholder matters.

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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: 7 September 2018



**David Hutchings**  
Lead Auditor

## Berowra & District Community Bank<sup>®</sup> Branch of Bendigo Bank



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### Services

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- » Business Banker
- » Financial Planner

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