

2018 Annual Report



Bright Community Financial
Services Limited

ABN 93 117 798 553

Bright **Community Bank**[®] Branch
Myrtleford agency

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Chairman's report

For year ending 30 June 2018

On behalf of the Board of the Bright **Community Bank**[®] Branch, I am very proud to report another successful and profitable year. A fantastic outcome not only for you as a shareholder but also for the wonderful community that we are so privileged to live in. This outcome is a result of the combined efforts of branch team and Board, and means that we will be paying a dividend this year.

These results have largely been made possible by the excellent service and hard work put in by the branch team under Mark Ditcham's outstanding leadership. We continually receive positive feedback from our customers via Bendigo Bank head office about the helpful experiences they encounter in the branch. This is something that sets us apart and is a major point of difference between us and our competition.

We are very fortunate to have such an incredible team in the branch. Sadly however, the last of the original team members Pauline Dalbosco has decided to leave the team and pursue an entirely different career outside of banking. Pauline has been a very valued and hard working team member for the **Community Bank**[®] branch since joining and even taking on the role of Branch Manager. I would like to thank Pauline for her dedication, loyalty and professionalism over the past 12 years and wish her all the best in her new career.

The other major point of difference of the **Community Bank**[®] branch is the ability to invest in our community. We make sure the community knows that bank sponsorships, funding and donations are made possible only by the generosity of the shareholders in Bright Community Financial Services Limited and customers of the Bright **Community Bank**[®] Branch. On your behalf, we have supported numerous projects throughout the year, too many to list in detail here.

Some of the major projects we have been able to invest in include the youth Resilience Program, which in partnership with Mount Beauty **Community Bank**[®] Branch, is currently being rolled out to all schools in the Alpine Shire. This program is assisting the youth of the Alpine Shire to build up natural resilience in dealing with life's challenges, and has been very well received in the community.

Another major project we have been able to invest in was the lighting upgrade at Mcnamara Reserve in Myrtleford. This investment enables the reserve to be more multipurpose and it now can be used for night games at an Ovens & Murray Football League level, the first game of which they were able to hold on 21 April this year.

Lastly, at a Board level, we have welcomed Bill Andrews to the team. Bill has a background in education and retail and is a great addition to the team. I would like to take this opportunity to thank shareholders, customers, the fantastic branch team and the Board for their dedication and unwavering support for the Bright **Community Bank**[®] Branch.

Wishing your family and friends a happy, safe, prosperous festive season and new year.



Jarrad Cottrell
Chairman

Manager's report

For year ending 30 June 2018

I once again submit the Branch Manager's report for Bright **Community Bank**[®] Branch.

Once again it is pleasing to advise that this financial year, Bright **Community Bank**[®] Branch achieved another year of growth. This is a very pleasing result for the staff, our voluntary Board members, our customers, our shareholders and for our community.

The Bright **Community Bank**[®] Branch continues to grow and our funds under management, as at the end the financial year, was over \$108 million. We also increased our customer numbers to a total of 1,972, and they hold over 3,000 accounts with us.

I believe that the growth we again achieved is not only a testament to the **Community Bank**[®] model, and that unique point of difference we offer in regard to what we are able to contribute back to our local communities, but also due to our commitment in operating a full service branch with a high level of customer service and that our customers can either call us direct or come in between the hours of 9.00am – 5.00pm Monday to Friday.

Whilst we are pleased with our continued business growth, we know that we will need to continue to provide that superior level of customer service that we take great pride in and offer competitive products, interest rates and banking options to our customers. We are able to do that with the tremendous support and backing of Bendigo and Adelaide Bank Limited.

This continued growth in our business has allowed Bright **Community Bank**[®] Branch to meet its charter of giving back to our communities by assisting local community groups and clubs, and contributing and partnering in local projects and initiatives. In the last year we have again supported many local organisations with a variety of sponsorships right throughout our communities from Bright to Myrtleford and surrounds. We are enormously proud of these contributions that we are able to make and consider it a privilege to be in a position where we can assist so many in our communities.

Our Bright **Community Bank**[®] Branch agency at Myrtleford continues to operate through the local business Myrtleford Real Estate and Livestock. Their office is located at 99 Myrtle Street, Myrtleford and we thank Greg and his team for supporting our agency. This has allowed us to assist local groups and clubs in Myrtleford and surrounding communities. It is still our vision of growing the agency business and its customer base, so we can continue to provide benefits to those local communities.

From a banking point of view, our industry operational risk and regulatory requirements are always a major focus for Bendigo and Adelaide Bank Limited. This ensures our staff and branch adhere to its policies and procedures. The operational reviews conducted at our branch over the last 12 months confirm that our staff continue to meet these policy and regulatory requirements.

I would also like to personally thank our fantastic branch staff, Pauline, Jill, Naomi and Kasey, for the support and service they provide to our customers. The personal service we provide to our customers is something we are proud and passionate about. The staff form a fantastic team and I also thank them for the support and assistance they provide to me.

It with sadness however that we farewell our valued and popular staff member, Pauline Dalbosco. Pauline has been with the Bright **Community Bank**[®] Branch since we opened in October 2006. Pauline is moving in a different direction and we all wish her well and on behalf of the staff, the Board, our customers and shareholders we thank her for huge contribution to the business. Thank you Pauline, and good luck.

We are also fortunate to receive great support from our business partners, Business Banker Tony Clarebrough, our Financial Planner Sheridan Gillham and our Agribusiness Managers. They are experts in their respective areas of business, finance, agribusiness and Financial Planning and provide great support and service to our branch and to our customers.

Manager's report (continued)

I also thank our Bendigo Bank support team of Mark Brown (Regional Manager), Kendall Beattie (Regional Community Manager), Brian O'Keefe (Risk & Compliance Manager) and Monique Bonney (Local Connection Coordinator) and their respective teams who are also a great support to our branch and to our staff.

I would also like to sincerely thank Board Chairman Jarrad Cottrell and the other Board members for their continued support and assistance. The Board members of the Bright **Community Bank**[®] company are all volunteers and I thank them for their support, passion and commitment.

Most of all I would like to once again thank our local shareholders, our individual customers and the local businesses and groups that choose to do their banking with Bright **Community Bank**[®] Branch. As I have said in the past, it is only because they do that we are able to provide the support that we do to our local communities.

Our success is directly linked to the success of our communities so assisting local groups and supporting community events and projects is ultimately good for all of us.

On behalf of the branch staff we look forward to another year of servicing our current, new and potential customers, growing our business and continuing to support our communities.

Thank you,

A handwritten signature in black ink, appearing to read 'Mark Ditcham', with a stylized flourish at the end.

Mark Ditcham
Branch Manager

Directors' report

For the financial year ended 30 June 2018

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:

Jarrad Michael Cottrell

Chairman

Occupation: Retail Manager

Qualifications, experience and expertise: 17 years working for large business. Management of high volume retail sites with teams up to 250 people, HR experience specialising in recruiting and training. Buying and marketing experience in produce buying working as a rebuyer and quality controller. Excellent interpersonal and leadership skills. Certificate 4 in retail management, qualified in return to work training for injured employees.

Special responsibilities: Chairman, Property and OHS sub-committees

Interest in shares: Nil

Rosalind Anne Holland

Treasurer

Occupation: Owner and manager holiday accommodation

Qualifications, experience and expertise: Grad Dip Bus Mgt, Assoc Dip Bus Admin. Business management consulting 16 years – public, private and NFP organisations. Positions in the public and private sectors in the people and business management – 10 years. Currently owner and manager Bright Mystic Valley Holiday Units. Currently President Holiday Unit Group, a sub-committee of the Bright and District Chamber of Commerce. Program Coordinator, Bright Spring Festival Committee.

Special responsibilities: Treasurer

Interest in shares: Nil

Michelle Therese Sharpe

Director

Occupation: Practice Manager Allied Health Practice

Qualifications, experience and expertise: Previous experience involves being owner/operator of award winning Hospitality business in Townsville (2005 – 2013). Development of processes and procedures, staff hire and training, event management, marketing, budgeting, payroll and all administration duties. 30 years administration/ management of private specialist medical practises. Owner of 6WD vehicle tour business for 3 years, sold in 2017. Currently Event co-ordinator of Grand Fireworks Spectacular and entertainment (4years) - Spring Festival Committee and Practice Manager for Allied Health Practice.

Special responsibilities: Branch/lease relocation sub committee and Marketing Committee

Interest in shares: Nil

Julie Rose Blood

Secretary

Occupation: Bookkeeper

Office manager for 17.5 years, Secretary & Company Secretary for 7 years, Past president of the Bright Football/Netball club and Junior Football Club. Past Treasurer of Bright Wanderers Cricket club and current treasurer of Bright vehicle preservation society.

Special responsibilities: Secretary

Interest in shares: Nil

Josef Wowk

Director (*Appointed 2 August 2017*)

Occupation: Retired

Qualifications, experience and expertise: Certificate of Business Studies (Banking & Finance).

Special responsibilities: Nil

Interest in shares: Nil

Directors' report (continued)

Directors (continued)

William George Andrews

Director (*Appointed 26 April 2018*)

Occupation: Wine Tourism Operator

Qualifications, experience and expertise: Secondary Teacher for 20 years, Brown Brothers Cellar Door Manager for 8 years, Proprietor for Wattle Park Cellars for 5 years and Fine Wine Manager at Dan Murphy's for 10 years. President of Buckley Ridges, Rainbow Bright Wanderers Cricket Clubs, Vice President of Dandenong & District Cricket Association and Ovens & Kiewa cricket association. Committee member of Rainbow Football Club, Bright Football Club and Rutherglen Winemakers.

Special responsibilities: Nil

Interest in shares: Nil

Leigh Kristofer Marlow

Director (*Resigned 2 August 2017*)

Occupation: Manager - Bright Electric Bikes & Alpine Cellars

Qualifications, experience and expertise: Bachelor of Building (Project Management), experience includes Content Manager - Tourism North East, Communications Manager - Australia's Largest Environmental NGO and International Ski Instructor in Australia and north America. Job skills include management, marketing, sales, web design, social media, app development, communications, training and copywriting. Currently Vice President at Bright Tennis Club.

Special responsibilities: Marketing Committee and Deputy Chair-person

Interest in shares: Nil

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 Julie Rose Blood. Julie was appointed to the position of secretary on 23 May 2011.

Julie works as an Administration Manager and has many years of administrative experience.

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
\$	\$
73,031	89,709

	Year ended 30 June 2018	
Dividends	Cents	\$
Dividends paid in the year	5	34,706

Directors' report (continued)

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' 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 were:

	Directors' Meetings	
	<u>Eligible</u>	<u>Attended</u>
Jarrad Michael Cottrell	11	11
Rosalind Anne Holland	11	10
Michelle Therese Sharpe	11	10
Julie Rose Blood	11	11
Josef Wowk (<i>Appointed 2 August 2017</i>)	11	9
William George Andrews (<i>Appointed 26 April 2018</i>)	3	2
Leigh Kristofer Marlow (<i>Resigned 2 August 2017</i>)	1	1

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 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*.

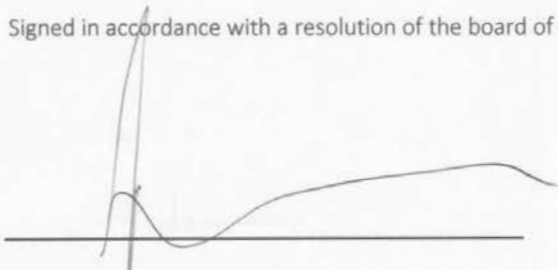
The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- 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 9.

Signed in accordance with a resolution of the board of directors at Bright, Victoria on 25 September 2018.

A handwritten signature in dark ink, appearing to read 'Jarrad Michael Cottrell', is written over a horizontal line.

Jarrad Michael Cottrell, Chairman

Auditor's independence declaration



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 Bright Community Financial Services Limited

As lead auditor for the audit of Bright Community 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.

A handwritten signature in black ink, appearing to read 'Andrew Frewin Stewart'.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 27 September 2018

A handwritten signature in black ink, appearing to read 'David Hutchings'.

David Hutchings
Lead Auditor

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Financial statements

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

	Notes	2018 \$	2017 \$
Revenue from ordinary activities	4	734,020	697,386
Employee benefits expense		(330,307)	(321,680)
Charitable donations, sponsorship, advertising and promotion		(102,315)	(44,967)
Occupancy and associated costs		(50,118)	(54,431)
Systems costs		(18,389)	(19,399)
Depreciation and amortisation expense	5	(26,054)	(28,832)
Finance costs	5	(652)	(839)
General administration expenses		(105,394)	(101,539)
Profit before income tax expense		100,791	125,699
Income tax expense	6	(27,760)	(35,990)
Profit after income tax expense		73,031	89,709
Total comprehensive income for the year attributable to the ordinary shareholders of the company:		73,031	89,709
Earnings per share		¢	¢
Basic earnings per share	23	10.52	12.92

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet

as at 30 June 2018

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	486,376	387,647
Trade and other receivables	8	70,738	67,756
Total current assets		557,114	455,403
Non-current assets			
Property, plant and equipment	9	25,889	38,512
Intangible assets	10	44,414	57,843
Deferred tax asset	11	18,751	36,018
Total non-current assets		89,054	132,373
Total assets		646,168	587,776
LIABILITIES			
Current liabilities			
Trade and other payables	12	33,861	32,678
Current tax liabilities	11	10,492	-
Borrowings	13	4,292	4,085
Provisions	14	47,992	41,459
Total current liabilities		96,637	78,222
Non-current liabilities			
Borrowings	13	6,855	10,745
Provisions	14	16,530	10,988
Total non-current liabilities		23,385	21,733
Total liabilities		120,022	99,955
Net assets		526,146	487,821
EQUITY			
Issued capital	15	670,347	670,347
Accumulated losses	16	(144,201)	(182,526)
Total equity		526,146	487,821

The accompanying notes form part of these financial statements.

Financial statements (continued)

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

	Notes	Issued capital \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016		670,347	(251,411)	418,936
Total comprehensive income for the year		-	89,709	89,709
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	21	-	(20,824)	(20,824)
Balance at 30 June 2017		670,347	(182,526)	487,821
Balance at 1 July 2017		670,347	(182,526)	487,821
Total comprehensive income for the year		-	73,031	73,031
Transactions with owners in their capacity as owners:				
Shares issued during period		-	-	-
Costs of issuing shares		-	-	-
Dividends provided for or paid	21	-	(34,706)	(34,706)
Balance at 30 June 2018		670,347	(144,201)	526,146

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cash Flows for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		795,979	761,377
Payments to suppliers and employees		(663,884)	(602,497)
Interest received		5,675	2,863
Interest paid		(652)	(839)
Net cash provided by operating activities	17	137,118	160,904
Cash flows from investing activities			
Payments for intangible assets		-	(67,152)
Net cash used in investing activities		-	(67,152)
Cash flows from financing activities			
Repayment of borrowings		(3,683)	(3,890)
Dividends paid	21	(34,706)	(20,824)
Net cash used in financing activities		(38,389)	(24,714)
Net increase in cash held		98,729	69,038
Cash and cash equivalents at the beginning of the financial year		387,647	318,609
Cash and cash equivalents at the end of the financial year	7(a)	486,376	387,647

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2018

Note 1. Summary of significant accounting policies

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 Standards Board (AASB) 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 which 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 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.

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.

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.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

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 lease amount to \$127,091, 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®** branch at Bright, 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.

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:

- 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).

Notes to the financial statements (continued)

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

b) Revenue (*continued*)

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.

Note: In very simplified terms, currently, deposit return means the interest Bendigo and Adelaide Bank Limited gets when it invests the money the customer deposits with it. The cost of funds means the interest Bendigo and Adelaide Bank Limited pays when it borrows the money to give a customer a loan.

For those products and services on which margin is paid, 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.

Products and services on which margin is paid include variable rate deposits and variable rate home loans.

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.

Notes to the financial statements (continued)

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

b) Revenue (*continued*)

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.

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 unrefundable).

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.

Notes to the financial statements (continued)

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

c) Income tax *(continued)*

Deferred tax (continued)

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.

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:

- plant and equipment	2.5 - 40	years
- motor vehicles	3 - 5	years

Notes to the financial statements (continued)

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

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.

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) 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

Financial liabilities include borrowings, trade and other payables and non-derivative financial liabilities (excluding financial guarantees). They 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.

Notes to the financial statements (continued)

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

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) 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.

Note 2. Financial risk management

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.

Notes to the financial statements (continued)

Note 2. Financial risk management *(continued)*

(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.

(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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements

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 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.

Notes to the financial statements (continued)

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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	2018	2017
	\$	\$
Operating activities:		
- gross margin	514,663	464,907
- services commissions	132,681	142,736
- fee income	55,653	55,181
- market development fund	25,000	31,667
Total revenue from operating activities	<u>727,997</u>	<u>694,491</u>
Non-operating activities:		
- interest received	5,675	2,863
- other revenue	348	32
Total revenue from non-operating activities	<u>6,023</u>	<u>2,895</u>
Total revenues from ordinary activities	<u>734,020</u>	<u>697,386</u>

Note 5. Expenses

Depreciation of non-current assets:		
- leasehold improvements	7,071	7,071
- motor vehicle	5,552	5,552
Amortisation of non-current assets:		
- franchise agreement	2,238	8,451
- franchise renewal fee	11,193	7,758
	<u>26,054</u>	<u>28,832</u>
Finance costs:		
- interest paid	<u>652</u>	<u>839</u>
Bad debts	<u>292</u>	<u>118</u>

Note 6. Income tax expense

The components of tax expense comprise:		
- Current tax	10,492	-
- Movement in deferred tax	(3,381)	(2,423)
- Recoupment of prior year tax losses	20,649	37,984
-Under/over provision in respect to prior year	-	429
	<u>27,760</u>	<u>35,990</u>

Notes to the financial statements (continued)

Note 6.	Income tax expense (continued)	2018	2017
		\$	\$
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows			
	Operating profit	100,791	125,699
	Prima facie tax on profit from ordinary activities at 27.5% (2017: 27.5%)	27,718	34,568
	Add tax effect of:		
	- non-deductible expenses	42	993
	- timing difference expenses	3,381	2,423
		<u>31,141</u>	<u>37,984</u>
	Movement in deferred tax	(3,381)	(2,423)
	Under/over provision in respect to prior year	-	429
		<u>27,760</u>	<u>35,990</u>

Note 7.	Cash and cash equivalents		
	Cash at bank and on hand	144,334	174,267
	Term deposits	342,042	213,380
		<u>486,376</u>	<u>387,647</u>

Note 7.(a) Reconciliation to cash flow statement

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	144,334	174,267
	Term deposits	342,042	213,380
		<u>486,376</u>	<u>387,647</u>

Note 8.	Trade and other receivables		
	Trade receivables	61,208	55,801
	Prepayments	9,530	11,955
		<u>70,738</u>	<u>67,756</u>

Notes to the financial statements (continued)

Note 9.	Property, plant and equipment	2018	2017
		\$	\$
	Plant and equipment		
	At cost	165,758	165,758
	Less accumulated depreciation	(144,459)	(137,388)
		<u>21,299</u>	<u>28,370</u>
	Motor vehicles		
	At cost	18,508	18,508
	Less accumulated depreciation	(13,918)	(8,366)
		<u>4,590</u>	<u>10,142</u>
	Total written down amount	<u>25,889</u>	<u>38,512</u>
Movements in carrying amounts:			
	Plant and equipment		
	Carrying amount at beginning	28,370	35,441
	Less: depreciation expense	(7,071)	(7,071)
	Carrying amount at end	<u>21,299</u>	<u>28,370</u>
	Motor vehicles		
	Carrying amount at beginning	10,142	15,693
	Less: depreciation expense	(5,552)	(5,551)
	Carrying amount at end	<u>4,590</u>	<u>10,142</u>
	Total written down amount	<u>25,889</u>	<u>38,512</u>
Note 10.	Intangible assets		
	Franchise fee		
	At cost	90,514	90,514
	Less: accumulated amortisation	(83,111)	(80,873)
		<u>7,403</u>	<u>9,641</u>
	Renewal processing fee		
	At cost	55,961	55,960
	Less: accumulated amortisation	(18,950)	(7,758)
		<u>37,011</u>	<u>48,202</u>
	Total written down amount	<u>44,414</u>	<u>57,843</u>

Notes to the financial statements (continued)

Note 11. Tax	2018	2017
	\$	\$
Current:		
Income tax payable	10,492	-
Non-Current:		
Deferred tax assets		
- accruals	1,007	946
- employee provisions	17,744	14,423
- tax losses carried forward	-	20,649
	18,751	36,018
Net deferred tax asset	18,751	36,018
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	17,267	35,990

Note 12. Trade and other payables

Trade creditors	4,923	4,711
Other creditors and accruals	28,938	27,967
	33,861	32,678

Note 13. Borrowings

Current:			
Chattel mortgage	18	<u>4,292</u>	<u>4,085</u>
Non-Current:			
Chattel mortgage	18	<u>6,855</u>	<u>10,745</u>

Chattel Mortgage is repayable monthly with the final instalment due on 31 December 2020. Interest is recognised at an average rate of 4.75% (2017: 4.57%). The mortgage is secured by a fixed and floating charge over the company's assets.

Note 14. Provisions

Current:		
Provision for annual leave	27,706	23,136
Provision for long service leave	20,286	18,323
	47,992	41,459

Notes to the financial statements (continued)

Note 15. Provisions *(continued)*

Non-Current:

Provision for long service leave	16,530	10,988
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Note 15. Issues capital	2018	2017
	\$	\$
694,113 ordinary shares fully paid (2017: 694,113)	694,113	694,113
Less: equity raising expenses	(23,766)	(23,766)
	<u>670,347</u>	<u>670,347</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 15. Issued capital (*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 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 297. As at the date of this report, the company had 329 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.

Note 16. Accumulated losses	2018	2017
	\$	\$
Balance at the beginning of the financial year	(182,526)	(251,411)
Net profit from ordinary activities after income tax	73,031	89,709
Dividends provided for or paid	(34,706)	(20,824)
Balance at the end of the financial year	<u>(144,201)</u>	<u>(182,526)</u>

Notes to the financial statements (continued)

Note 17. Statement of cash flows	2018	2017
	\$	\$
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	73,031	89,709
Non cash items:		
- depreciation	12,623	12,623
- amortisation	13,431	16,209
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(2,983)	(1,053)
- (increase)/decrease in other assets	17,268	35,990
- increase/(decrease) in payables	1,181	(1,135)
- increase/(decrease) in provisions	12,075	8,561
- increase/(decrease) in tax liabilities	10,492	-
Net cash flows provided by operating activities	<u>137,118</u>	<u>160,904</u>

Note 18. Leases

Finance lease commitments		
Payable - minimum lease payments:		
- not later than 12 months	4,728	4,728
- between 12 months and 5 years	7,092	11,426
Minimum lease payments	<u>11,820</u>	<u>16,154</u>
Less future finance charges	(673)	(1,324)
Present value of minimum lease payments	<u>11,147</u>	<u>14,830</u>

The finance lease for the motor vehicle, which commenced in 31 December 2015, is a five year lease. Interest is recognised at an average rate of 4.75% (2017: 4.57%).

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	38,127	37,307
- between 12 months and 5 years	88,964	124,357
	<u>127,091</u>	<u>161,664</u>

The operating lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease was renewed for another five year term on 1 October 2016 with one further term of five years available.

Notes to the financial statements (continued)

Note 19. Auditor's remuneration	2018	2017
	\$	\$
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	4,400	4,200
- share registry services	4,680	6,008
- non audit services	1,830	1,805
	<u>10,910</u>	<u>12,013</u>

Note 20. Director and related party disclosures

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

Jarrad Michael Cottrell
Rosalind Anne Holland
Michelle Therese Sharpe
Julie Rose Blood
Josef Wowk (*Appointed 2 August 2017*)
William George Andrews (*Appointed 26 April 2018*)
Leigh Kristofer Marlow (*Resigned 2 August 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.

Directors Shareholdings	2018	2017
Jarrad Michael Cottrell	-	-
Rosalind Anne Holland	-	-
Michelle Therese Sharpe	-	-
Julie Rose Blood	-	-
Josef Wowk (<i>Appointed 2 August 2017</i>)	-	-
William George Andrews (<i>Appointed 26 April 2018</i>)	-	-
Leigh Kristofer Marlow (<i>Resigned 2 August 2017</i>)	-	-

There was no movement in directors shareholdings during the year.

Note 21. Dividends provided for or paid	2018	2017
	\$	\$
<i>a. Dividends paid during the year</i>		
Current year dividend		
Unfranked dividend (2016 unfranked) - 5 cents (2017: 3 cents) per share	<u>34,706</u>	<u>20,824</u>

Notes to the financial statements (continued)

Note 22. 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.

Note 23. Earnings per share	2018	2017
	\$	\$
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	73,031	89,709
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	694,113	694,113

Note 24. 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.

Note 25. 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 26. Segment reporting

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

Note 27. 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
Shop 2
104 Gavan Street
Bright VIC 3741

Principal Place of Business
Shop 2
104 Gavan Street
Bright VIC 3741

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					
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial assets												
Cash and cash equivalents	144,334	174,267	342,042	213,380	-	-	-	-	-	-	1.24	1.64
Receivables	-	-	-	-	-	-	-	-	61,208	55,801	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	4,292	4,085	6,855	10,745	-	-	-	-	4.75	4.57
Payables	-	-	-	-	-	-	-	-	4,923	4,711	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 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:

	2018 \$	2017 \$
Change in profit/(loss)		
Increase in interest rate by 1%	4,752	3,728
Decrease in interest rate by 1%	(4,752)	(3,728)
Change in equity		
Increase in interest rate by 1%	4,752	3,728
Decrease in interest rate by 1%	(4,752)	(3,728)

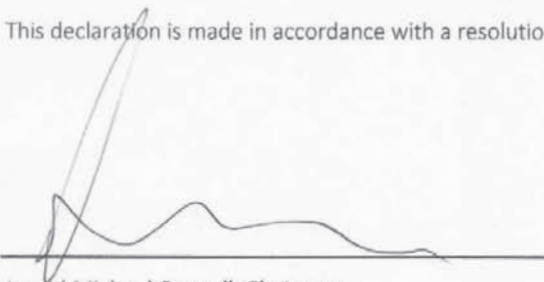
Directors' declaration

In accordance with a resolution of the directors of Bright 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 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.

A handwritten signature in black ink, appearing to read 'Jarrad Michael Cottrell', is written over a horizontal line.

Jarrad Michael Cottrell, Chairman

Signed on the 25th of September 2018.

Independent 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 Bright Community Financial Services Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial report of Bright Community 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

Bright Community 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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Independent audit report (continued)

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: 27 September 2018



David Hutchings
Lead Auditor

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Shop 2, 104 Gavan Street, Bright VIC 3741
Phone: (03) 5755 1932 Fax: (03) 5755 1107

Myrtleford agency
Myrtleford Real Estate and Livestock Office
99 Myrtle Street, Myrtleford VIC 3737
Phone: (03) 5752 1304

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