





# Annual Report 2016

## Corangamite Financial Services Limited

ABN 80 105 703 099

Anglesea & District **Community Bank**® Branch
Winchelsea & District **Community Bank**® Branch

# Contents

# Chair's report

## For year ending 30 June 2016

As with the previous financial year, our Board has been faced with great challenges in operating **Community Bank®** branches under the franchise with Bendigo Bank, particularly in the current financial climate.

The results that the company has achieved have been pleasing in that our holdings have increased by $14.6 million, whilst our nett income has remained about the same as for the previous financial year. This has enabled us to provide over $100,000 to the community by way of grants, support for local projects, community partnerships and shareholder dividends.

This result is in no small part due to the dedication of our Managers and their staff, and I extend our gratitude to each and every one of them for their contributions.

As we foreshadowed last year, the new 'era' in our relationship with Bendigo Bank commenced in July 2016 bringing with it new challenges as Project Horizon is rolled out, and the Funds Transfer Pricing (FTP) model comes into operation. FTP is a new method of pricing funds obtained from the Bank and how the profit share is implemented.

We, as a Board have been involved in discussions regarding the FTP for the past 12 months and have been working with Bendigo Bank to obtain modelling proposals as to how it might affect our business, compared to the method of income distribution that we have worked with over the last 12 years or so.

Whilst the FTP method is said to be the best industry practice, it will have an impact on our operations and what we are likely to receive will depend on the pricing applied to each product. Our view is that the FTP is likely to have a short-term negative impact on our income, although each month our income is likely to vary. However, we remain optimistic that by the continuing growth of our company holdings, and an increase in the various products offered, we can, to some degree offset the negative impact.

As part of the new arrangements with Bendigo Bank, we will also be receiving a reduced amount used directly for Market Development, with our entitlements being governed by our company holdings. There is a new collaborative Marketing Cluster being established with Bendigo Bank and other **Community Bank®** companies. Our **Community Bank®** company will have a representative on this committee who will promote our company's interests.

On a more positive note, we have this year been able to augment our presence in Lorne with the establishment of a business office, under a secure lease on the site where our ATM is situated. This office has been operational since April this year and we have defrayed some of the rental by sub-letting office space. This allows us to expand on the transactional services provided by the Lorne agency (who will continue to provide this service), by providing a personal presence for further enquiries in relation to other banking services available. We are optimistic that the office will increase our holdings and custom in Lorne and surrounds, to a point where further services can be provided from the site.

In Birregurra, we have decided to renew the ATM machine after a review of its operation and the support we have received from the local community.

The provision of a childcare centre in Winchelsea is a continuing project, which at last is gaining some traction with meetings involving the interested stakeholders continuing.

Our Board is regularly reviewing the Strategic Plan and is developing our governance policies following last year's Governance Review, particularly in the area of risk management.

The year has placed a greater burden than previously on our Board and Senior Manager in particular, with the new arrangements between Bendigo Bank and the Lorne project.

The increasing amount and complexity of material from Bendigo Bank to be read and decided upon, puts great demands on the time and availability of our volunteer Directors, and to each Board member I extend my gratitude for their selflessness and fortitude in conducting the business of our company.

# Chair's report (continued)

To our Regional Manager Sue Tansey, I extend our gratitude for her assistance, counsel and rapid response to issues we have faced this year. Sue has provided great timely and practical advice to us and we look forward to our relationship continuing.

Shane Madden, Branch Manager of our Anglesea & District **Community Bank**® Branch has retired after managing the Anglesea & District **Community Bank**® Branch since its inception. We thank him for his great contribution to our success in Anglesea and wish him well in his retirement.

To our Senior Manager Jeremy Morris, we say a huge thank you for your tireless work and commitment to overseeing the banking operations and your continual positivity in all situations.

To our Executive Assistant, Sue Lubcke I express my thanks for your dedication and attention to detail in organising the business of the Board, getting us to the meetings and keeping us compliant. Your contribution is invaluable.

To you the shareholders, we thank you for continuing to invest and be part of a unique, locally owned and run company.

**Vaughan Lamb**
**Chair**

# Senior Manager's report

## For year ending 30 June 2016

The 2015/16 financial year was another successful one for our **Community Bank**® company, considering the continuing mild consumer confidence in the financial climate.

We successfully grew our business which now stands at over $280 million in funds under management at both branches. While we didn't achieve the challenging $25 million growth target we set ourselves for the year, we managed to grow the company by $14.6 million (approximately 5.5%) which is a great result and a huge credit to the dedication of our staff and the support from the community.

Business retention was strong, considering the low interest rate environment which understandably caused investors to explore other opportunities outside of cash deposits, in an aim to achieve a decent return. Loan amortisation, the rate at which debt is being paid down was at unforeseen levels, which makes lending growth extremely hard to achieve. To put this into perspective, the amortisation rate at Anglesea in 2015/16 was 10% against a lending portfolio of $70 million meaning that we had write over $7 million in new lending business just to break even.

While we weren't able to achieve our business growth budget, we did exceed out profit forecast. This was the result of a balanced account portfolio achieving a higher rate of return and our focus on diligent expenditure. Our aim of business growth and return on investment will continue to be a key focus moving forward, which is emphasised as we transition into a new revenue share arrangement with Bendigo Bank from 1 July 2016. The new arrangement removes the set commission trailer we currently receive on some core banking products, with a focus on a sharing arrangement that is more resilient to rate movements, as Bendigo Bank aims to maintain an underlining principle of a '50/50' revenue share. We remain cautious about the effect of this arrangement with the current indications showing the net result is slightly negative. However, in a declining rate environment there is likely to be a negative impact on our future income.

There is no doubt that the **Community Bank**® branches have had a greater focus creating greater public awareness and uptake of the Bendigo Bank product suite. Our staff have embraced the challenge of increasing the amount of business our customers do with us, not simply by 'selling' our customers products and services they don't need, but by assisting them in achieving their financial outcomes and show that we can offer the solution that they may be getting elsewhere. What sets us apart is our excellent personal level of service, resulting in reinvestment and support of our community.

We were again able to support more than 50 local groups and organisations with contributions totaling more than $100,000 and also set aside a further $100,000 for future projects – a terrific result in a challenging environment.

Our founding Anglesea Branch Manager, Shane Madden retired at the turn of the current financial year. Shane played a huge role in the establishment and growth of our business on the coast and was pivotal in the Anglesea community. Shane's passion and community engagement activities were outstanding and we are deeply appreciative of his support and contributions over his 10 year service with our **Community Bank**® company.

Shane's retirement has caused us to review our staffing structure and provide the opportunity for some greater responsibility amongst our team. The primary structural change involves myself, as I assume the Anglesea & District **Community Bank**® Branch Management responsibilities, with the support of Matilda Trounson and our fabulous Anglesea team. Matilda worked with us previously at our Winchelsea & District **Community Bank**® Branch before pursuing opportunities within Bendigo Bank in Geelong. We are very pleased to welcome Matilda back into our team.

I am confident that we have a strong staffing structure and balance, and our development and upskilling will position us well for growth and management of our expanding customer base in an ever evolving banking environment. Our staff are focussed on providing great service and assisting our customers to achieve their financial goals and outcomes. Our service offering as relationship bankers is somewhat unknown in the broader public, overshadowed by our reputation as a community provider.

# Senior Manager’s report (continued)

I would like to thank our Anglesea team; Kim Schwarze, Bec Young, Kelly Turner and Jenna Robinson for their support and willingness to share greater responsibility and ownership in running the Anglesea & District **Community Bank**® Branch over the past couple of months. I would also like to thank our dedicated team at Winchelsea; Julie Dunkley, Dianne Meesen, Natasha Skurka and Josie McDonald led by Rosie Gillett, along with the staff who work between our two sites; Rob Cameron, Sally Dyer, Dean Hackwill and Sue Lubcke. I am very thankful to be supported by a group of volunteer Directors and the branch staff, who are all dedicated to building our banking business for the betterment of our broader community.

**Jeremy Morris**
**Senior Manager**

# Bendigo and Adelaide Bank report

## For year ending 30 June 2016

It's been 18 years since Bendigo Bank and two rural communities announced they were joining forces to open **Community Bank**® branches.

The initial aim was to return traditional bank branches to regional communities.

It was soon obvious that the 'community' aspect of this unique banking model was going to be just as important to all types of communities; whether they are rural, regional or urban.

Today, there are 312 **Community Bank**® communities in every state and territory of Australia.

The statistics are impressive:

- More than $148 million in community contributions returned to local communities
- 1,900 Directors
- 1,500 staff
- More than $38 million in shareholder dividends.

Yes, these figures are staggering.

But dig a little deeper and what's more significant is that social issues affecting every community in Australia have received funding from **Community Bank**® companies.

- Aged care
- Domestic and family violence
- Environment
- Youth disengagement
- Mental health
- Homelessness
- Unemployment

I have no doubt that your **Community Bank**® company has already had a role to play, either in a funding grant, sponsorship support or connecting locals with relevant government, corporate and not-for-profit organisations.

Behind every **Community Bank**® branch is a company Board of Directors. These people are local mums and dads, tradespeople, small business operators, farmers, lawyers, accountants, school teachers, office workers… and the list goes on.

As **Community Bank**® company Directors they volunteer their time, their professional expertise and their local knowledge to make your **Community Bank**® branch the success it is today.

To every single one of our 1,900-plus **Community Bank**® company Directors, thank you for your commitment, your confidence in Bendigo and Adelaide Bank and your vision to make your community a better place to live.

As a **Community Bank**® community, you're all change makers.

As a shareholder, you're critical to helping make things happen for the benefit of your community.

On behalf of Bendigo Bank, thank you.

Thank you for your support as a shareholder, your belief in your community and your faith in what a **Community Bank**® community can achieve.

**Robert Musgrove**
**Executive Community Engagement**

# Directors' report

## For the financial year ended 30 June 2016

Your directors submit the financial statements of the company for the financial year ended 30 June 2016.

**Directors**

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

**Vaughan Mervyn Lamb**

Chairman

Occupation: Solicitor

Qualifications, experience and expertise: Currently consultant to Coulter Roache Lawyers, previously Principal from 2003 to 2015. Former Chairman and board member Bethany Family Support (10 years), former board member Grace McKellar Centre, Kalkee and Geelong Disabled Peoples Industries.

Special responsibilities: Chairman, Executive Committee, Governance and HR Committee, Assets and Finance Committee

Interest in shares: Nil

**Robert John Earl**

Director

Occupation: Civil Contractor

Qualifications, experience and expertise: Qualified Diesel Fitter and holds a Diploma of Occupational Health and Safety. Managed own business for 27 years, ten years in heavy construction. Former president of the Civil Contractors Federation for ten years, founding member of the Winchelsea Tourist and Traders, former member of the SES and Landcare and former mentor at the Winchelsea Primary School.

Special responsibilities: Marketing and Community Investment Committee

Interest in shares: 15,600

**John McKenzie Knuckey**

Deputy Chair

Occupation: Business Proprietor – Engineering

Qualifications, experience and expertise: Self employed in the agricultural retail and manufacturing industry for 40 years. Past executive of local sporting clubs. Long time local resident.

Special responsibilities: Assets and Finance Committee, Executive Committee

Interest in shares: 4,700

**Kenneth Ian McDonald**

Director

Occupation: Real Estate Agent/Grain Consultant

Qualifications, experience and expertise: Self employed Real Estate Agent/Grain Consultant. Long time local resident and community volunteer.

Special responsibilities: Assets and Finance Committee

Interest in shares: 3,600

**Directors (continued)**

**John Hubert Tebbutt**

Deputy Chair

Occupation: Retired Barrister at Law

Qualifications, experience and expertise: Barrister at Law for 43 years. Licenced Legal Practitioner and Accredited Mediator (Bond University). Past President of the Torquay Golf Club. Part time Farmer.

Special responsibilities: Governance and HR Committee, Executive Committee

Interest in shares: Nil

**Michael Cole McConnell**

Director

Occupation: Retired Builder, Property Developer

Qualifications, experience and expertise: Builder and small property developer. Member of the Master Builders Association of Victoria. 50 years involvement with the Anglesea Surf Life Saving Club including life membership in 2002. Member of the Anglesea Tennis Club and Active Seniors Group.

Special responsibilities: Assets and Finance Committee

Interest in shares: 9,000

**Robyn Gaye Erwin**

Director

Occupation: Small Business Owner

Qualifications, experience and expertise: Former Business Development Manager – GPAC, Bachelor of Education (Secondary). Experience in sponsorship, grants, public relations and marketing.

Special responsibilities: Chair of Marketing & Community Investment Committee, Business Development Committee

Interest in shares: Nil

**Pamela Margaret Sandlant**

Director

Occupation: School Principal

Qualifications, experience and expertise: Diploma of Teaching, Bachelor of Education. Teacher and Principal 38 years (Management and Education). Partner in family business (Farming). Account management, various community involvement in sporting groups and voluntary community groups. Member/minute secretary Committee of management of Anglesea Community House (12 years).

Special responsibilities: Governance & HR Committee

Interest in shares: Nil

**Raylene Margaret Fordham**

Secretary

Occupation: Managing Director - Business Owner

Qualifications, experience and expertise: Managing Director of own business - Retail Services (Aust) Pty Ltd and Accommodation facility owner. President of the Local Trader's Association and member of Surf Coast Shires Tourism Reference Group. Former Victorian State Manager of Collins Booksellers.

Special responsibilities: Assets & Finance Committee, Business Development Committee, Governance & HR Committee

Interest in shares: Nil

**Directors (continued)**

**Michael Francis Fitzgerald**

Secretary (Resigned 10 November 2015)

Occupation: Company Director/Agricultural Commodity Trader

Qualifications, experience and expertise: Bachelor of Agricultural Science (Melbourne University). Owner/Director Melaluka Trading Pty Ltd. President of Modewarre Football and Netball Club. Former Treasurer of Moriac Primary School Council. Previous employment with Riordan Grain Services as a Commodity Trader.

Special responsibilities: Assets & Finance Committee, Business Development Committee

Interest in shares: 11,000

**Jennifer Anne Sewell**

Director (Resigned 10 November 2015)

Occupation: Project Officer/Home Duties

Qualifications, experience and expertise: Bachelor of Commerce (finance major), Bachelor of Arts (journalism major). Certificate IV in Financial Services, Diploma and Advanced Diploma of Financial Services (financial planning). Treasurer Inverleigh Kindergarten, Inverleigh Scouts. Policy and procedure development, Project management, Para planner, Financial analysis, Treasurer for local community groups.

Special responsibilities: Executive Committee, Marketing & Community Investment Committee, Business Development Committee

Interest in shares: 3,000

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

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

**Company Secretary**

The company secretary is Raylene Margaret Fordham. Raylene was appointed to the position of secretary on 2 December 2015, replacing Michael Fitzgerald.

Raylene commenced her professional career as a sales assistant with Collins Booksellers in 1988, moving up to store manager and then multi-store manager. In 2000, she moved to America and worked for Commercial Real Estate Agents, Jones Lang LaSalle. She held several administrative roles and was Personal Assistant to the Vice President of the Western Region in the USA.

On return to Australia in 2003, Raylene took a position with Collins Booksellers as Victorian State Manager. In 2006, she purchased her own business - Retail Services (Aust) Pty Ltd, of which she is Managing Director. A year later, she purchased the Anglesea Backpackers with her business partner. She is currently the President of Anglesea's Trader Association, which also affords her a position on the Surf Coast Shires Tourism Reference Group.

**Principal Activities**

The principal activities of the company during the financial year were facilitating **Community Bank**® services under management rights to operate two franchised branches 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 2016 $ | Year ended 30 June 2015 $ |
|---|---|
| 109,909 | 213,831 |

The company has engaged in planned activities to expand its customer base and market share in the Lorne community. The company has always identified that Lorne is within its business area and had expanded business services with the establishment of an agency for transactional banking, in partnership with local operators in December 2014. During the current period, the company entered into a leasehold arrangement and completed a fit out of a prominent shopfront in Lorne, to establish a Business Office to enable further growth opportunities. Operations commenced on 26 April 2016. This office also accommodates other complimentary professional businesses on a sub-lease basis and provision for further expansion of banking services, if required.

### Dividends

| | Year ended 30 June 2016 | |
|---|---|---|
| | **Cents** | **$** |
| Dividends paid in the year | 6 | 85,272 |

### 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

A core principle of the **Community Bank®** model is a 50/50 share of margin earned on core banking products. To better reflect this core principal, a new Revenue Share model was introduced from 1 July, 2016.

Bendigo and Adelaide Bank Ltd ("BEN") has adopted a Funds Transfer Pricing (FTP) model for **Community Bank®** Revenue Share, effective 1 July 2016. BEN applies its FTP methodology to regulatory reporting, performance management and revenue share. The FTP model:

- is a method used to measure how much each account or product is contributing to overall profitability, given a current cost of marginal funding.
- gives the BEN Group a better understanding of the net interest margin component of overall profitability.
- assigns a FTP rate based on the repricing characteristics and behavioural duration of products.

The BEN FTP revenue share sources **Community Bank®** product data and then applies BENs FTP rates to calculate revenue share for each **Community Bank®** branch by core banking product i.e. loans and deposits. The BEN FTP revenue share is reported to each **Community Bank®** company on a monthly basis.

The FTP methodology is reviewed annually with changes approved by BEN's Asset & Liability Management Committee (ALMAC). BEN's Board Risk Committee approves changes to the FTP Policy.

### Events since the end of the financial year (continued)

Subject to the size of the impact of the changes to a **Community Bank**® company's revenue share and a calculated baseline revenue, transitional support arrangements have been made by BEN for those companies adversely affected by these changes to the financial model, for a maximum period of up to 3 years. The purpose of this transitional support is to provide the **Community Bank**® company with a revenue baseline while it grows and diversifies its business to increase revenue.

At balance date, the company held an investment of shares in Vicwest Community Telco Limited (Vicwest). On 1 September 2016 Bendigo Telco Limited acquired all the shares of Vicwest by way of a scheme of arrangement between Vicwest and its shareholders. Under the terms of the scheme, Bendigo Telco Limited issued 1 share to Vicwest shareholders for every 2.074 Vicwest shares transferred to Bendigo Telco Limited. The company's investment has been revalued based on the market value of Bendigo Telco Limited shares as at 30 June 2016.

There are no other 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:

| | Board Meetings Attended | | Committee Meetings Attended | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Marketing & Community Investment | | Assets & Finance | | Governance & HR | | Executive | |
| | A | B | A | B | A | B | A | B | A | B |
| Vaughan Mervyn Lamb | 11 | 9 | - | - | 3 | 1 | 5 | 1 | 15 | 14 |
| Robert John Earl * | 11 | 4 | - | - | - | - | - | - | - | - |
| John McKenzie Knuckey | 11 | 9 | - | - | 4 | 3 | 1 | 1 | 15 | 12 |
| Kenneth Ian McDonald | 11 | 9 | - | - | 4 | 4 | - | - | - | - |
| John Hubert Tebbutt | 11 | 6 | - | - | - | - | 5 | 5 | 15 | 10 |
| Michael Cole McConnell | 11 | 6 | - | - | 4 | 4 | - | - | - | - |
| Robyn Gaye Erwin | 11 | 7 | 4 | 4 | - | - | - | - | - | - |
| Pamela Margaret Sandlant | 11 | 7 | - | - | - | - | 3 | 1 | - | - |
| Raylene Margaret Fordham | 11 | 9 | - | - | 1 | 1 | 5 | 5 | 9 | 4 |
| Michael Francis Fitzgerald (Resigned 10 November 2015) | 5 | - | - | - | - | - | - | - | - | - |
| Jennifer Anne Sewell (Resigned 10 November 2015) * | 5 | - | - | - | - | - | - | - | - | - |

A - Eligible to attend
B - Number attended
* Denotes approved leave of absence in the period

### 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.

### 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:

### Non audit services (continued)

- 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 14.

Signed in accordance with a resolution of the Board of Directors at Winchelsea, Victoria on 27 September 2016.

**Vaughan Mervyn Lamb,**
**Chairman**

# Auditor's independence declaration

Partners in success

Chartered Accountants

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

As lead auditor for the audit of Corangamite Financial Services Limited for the year ended 30 June 2016, 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: 27 September 2016

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

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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# Financial statements

## Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2016

| | Notes | 2016 $ | 2015 $ |
|---|---|---|---|
| Revenue from ordinary activities | 4 | 2,134,888 | 2,152,237 |
| Employee benefits expense | | (1,057,769) | (1,032,785) |
| Charitable donations, sponsorship, advertising and promotion | | (204,129) | (109,830) |
| Occupancy and associated costs | | (176,021) | (108,561) |
| Systems costs | | (113,422) | (119,246) |
| Depreciation and amortisation expense | 5 | (117,661) | (133,806) |
| Finance costs | 5 | (6,174) | (29,971) |
| General administration expenses | | (291,595) | (300,670) |
| **Profit before income tax expense** | | **168,117** | **317,368** |
| Income tax expense | 6 | (58,208) | (103,537) |
| **Profit after income tax expense** | | **109,909** | **213,831** |
| **Total comprehensive income for the year** | | **109,909** | **213,831** |
| **Earnings per share for loss attributable to the ordinary shareholders of the company:** | | **¢** | **¢** |
| Basic earnings per share | 26 | 7.73 | 15.05 |

The accompanying notes form part of these financial statements.

# Balance Sheet
as at 30 June 2016

| | Notes | 2016 $ | 2015 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7 | 149,153 | 157,658 |
| Trade and other receivables | 8 | 177,489 | 142,298 |
| **Total Current Assets** | | **326,642** | **299,956** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 9 | 1,056,452 | 1,038,015 |
| Financial assets | 10 | 39,343 | 19,200 |
| Intangible assets | 11 | 62,668 | 109,536 |
| Deferred tax asset | 12 | 31,638 | 28,859 |
| **Total Non-Current Assets** | | **1,190,101** | **1,195,610** |
| **Total Assets** | | **1,516,743** | **1,495,566** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 13 | 56,217 | 50,681 |
| Current tax liabilities | 12 | 23,472 | 24,521 |
| Borrowings | 14 | 24,832 | 34,518 |
| Provisions | 15 | 120,415 | 96,835 |
| **Total Current Liabilities** | | **224,936** | **206,555** |
| **Non-Current Liabilities** | | | |
| Borrowings | 14 | 69,951 | 94,782 |
| Provisions | 15 | 6,514 | 3,524 |
| **Total Non-Current Liabilities** | | **76,465** | **98,306** |
| **Total Liabilities** | | **301,401** | **304,861** |
| **Net Assets** | | **1,215,342** | **1,190,705** |
| **Equity** | | | |
| Issued capital | 16 | 966,000 | 966,000 |
| Reserves | 17 | 18,500 | 18,500 |
| Retained earnings | 18 | 230,842 | 206,205 |
| **Total Equity** | | **1,215,342** | **1,190,705** |

The accompanying notes form part of these financial statements.

## Statement of Changes in Equity for the year ended 30 June 2016

| | Issued capital $ | Retained earnings $ | Reserves $ | Total equity $ |
|---|---|---|---|---|
| **Balance at 1 July 2014** | **966,000** | **77,646** | **18,500** | **1,062,146** |
| **Total comprehensive income for the year** | **-** | **213,831** | **-** | **213,831** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Shares issued during period | - | - | - | - |
| Costs of issuing shares | - | - | - | - |
| Dividends provided for or paid | - | (85,272) | - | (85,272) |
| **Balance at 30 June 2015** | **966,000** | **206,205** | **18,500** | **1,190,705** |
| | | | | |
| **Balance at 1 July 2015** | **966,000** | **206,205** | **18,500** | **1,190,705** |
| **Total comprehensive income for the year** | **-** | **109,909** | **-** | **109,909** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Shares issued during period | - | - | - | - |
| Costs of issuing shares | - | - | - | - |
| Dividends provided for or paid | - | (85,272) | - | (85,272) |
| **Balance at 30 June 2016** | **966,000** | **230,842** | **18,500** | **1,215,342** |

The accompanying notes form part of these financial statements.

## Statement of Cash Flows
## for the year ended 30 June 2016

| | Notes | 2016 $ | 2015 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 2,245,182 | 1,990,801 |
| Payments to suppliers and employees | | (1,976,591) | (1,685,117) |
| Interest received | | 132 | 95 |
| Dividends received | | - | 12,549 |
| Interest paid | | (6,174) | (29,971) |
| Income taxes paid | | (62,034) | (54,866) |
| **Net cash provided by operating activities** | **19** | **200,515** | **233,491** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (89,230) | (1,042) |
| Payments for intangible assets | | - | (51,448) |
| Proceeds from sale of investments or financial assets | | - | 532,440 |
| **Net cash provided by/(used in) investing activities** | | **(89,230)** | **479,950** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (34,518) | (505,499) |
| Dividends paid | | (85,272) | (85,272) |
| **Net cash used in financing activities** | | **(119,790)** | **(590,771)** |
| **Net increase/(decrease) in cash held** | | **(8,505)** | **122,670** |
| Cash and cash equivalents at the beginning of the financial year | | 157,658 | 34,988 |
| **Cash and cash equivalents at the end of the financial year** | **7(a)** | **149,153** | **157,658** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

## For year ended 30 June 2016

## 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 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

The following amendments to accounting standards issued by the Australian Accounting Standards Board (AASB) became mandatorily effective for accounting periods beginning on or after 1 July 2015, and are therefore relevant for the current financial year.

- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.
- AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent.

None of the 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 2015, materially affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The following accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) become effective in future accounting periods.

# Notes to the financial statements (continued)

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

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

Application of new and amended accounting standards (continued)

| | Effective for annual reporting periods beginning on or after |
|---|---|
| AASB 9 Financial Instruments, and the relevant amending standards. | 1 January 2018 |
| AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. | 1 January 2018 |
| AASB 16 Leases | 1 January 2019 |
| AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations. | 1 January 2016 |
| AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation. | 1 January 2016 |
| AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants. | 1 January 2016 |
| AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements. | 1 January 2016 |
| AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. | 1 January 2018 |
| AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle. | 1 January 2016 |
| AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101. | 1 January 2016 |
| AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception. | 1 January 2016 |
| AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses. | 1 January 2017 |
| AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107. | 1 January 2017 |

The company has not elected to apply any accounting standards or interpretations before their mandatory operative date for the annual reporting period beginning 1 July 2015. Therefore, the above mentioned accounting standards or interpretations have no impact on amounts recognised in the current period or any prior period.

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®** branches at Winchelsea and Anglesea, 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®** branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

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

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

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

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

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

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

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

- advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branches
- 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

Over the period from September 2013 to February 2015, Bendigo and Adelaide Bank Limited conducted a review of the **Community Bank®** model, known as 'Project Horizon'. This was conducted in consultation with the **Community Bank®** network. The objective of the review was to develop a shared vision of the **Community Bank®** model that positions it for success now and for the future.

The outcome of that review is that the fundamental franchise model and community participation remain unchanged. Changes to be implemented over a three year period reflect a number of themes, including a culture of innovation, agility and flexibility, network collaboration, director and staff development and a sustainable financial model. This will include changes to the financial return for **Community Bank®** companies from 1 July 2016. A funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin. All revenue paid on core banking products will be through margin share. Margin on core banking products will be shared on a 50/50 basis.

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

**b) Revenue (continued)**

Revenue calculation (continued)

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. From 1 July 2016, both will mean the cost for Bendigo and Adelaide Bank Limited to borrow the money in the market.

Products and services on which margin is paid include variable rate deposits and variable rate home loans. From 1 July 2016, examples include Bendigo Bank branded at call deposits, term deposits and home loans.

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.

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. This currently also includes Bendigo Bank branded fixed rate home loans and term deposits of more than 90 days, but these will become margin products from 1 July 2016.

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.

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.

# Notes to the financial statements (continued)

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

**b) Revenue (continued)**

Ability to change financial return (continued)

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.

As discussed above in relation to Project Horizon, among other things, there will be changes in the financial return for **Community Bank®** companies from 1 July 2016. This includes 50% share of margin on core banking products, all core banking products become margin products and a funds transfer pricing model will be used for the method of calculation of the cost of funds, deposit return and margin.

The Board is yet to appreciate the full impact of the above changes on our revenue moving forward. We would anticipate that by the time of this year's AGM we will be able to inform our shareholders of the likely outcomes of the new model.

The Board is continuing to work with Bendigo and Adelaide Bank Ltd to understand any potential changes to revenue and will provide further details as appropriate in due course.

**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.

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

**c) Income tax (continued)**

Deferred tax (continued)

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

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

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

Current and deferred tax for the period

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

**d) Employee entitlements**

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

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

**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.

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

**g) Property, plant and equipment**

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

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

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

| | |
|---|---|
| • leasehold improvements | 40 years |
| • plant and equipment | 2.5 - 40 years |
| • furniture and fittings | 4 - 40 years |

**h) Intangibles**

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

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

**i) Payment terms**

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

**j) Borrowings**

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

**k) Financial instruments**

Recognition and initial measurement

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

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

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.

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

**k) Financial instruments (continued)**

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) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in the Statement of Profit or Loss and Other Comprehensive Income. Available-for-sale financial assets are included in non-current assets except where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(iv) Financial liabilities

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

Impairment

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

**l) Leases**

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

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

**m) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions 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.

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

**m) Provisions (continued)**

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

**n) Contributed equity**

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

**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.

(i) Market risk

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

(ii) Price risk

The company holds shares in Vicwest Community Telco Limited  and is exposed to equity securities price risk as it hold investments for sale or at fair value. The company has purchased these shares as an investment and does not hold them as part of their day to day operations therefore deem the risk insignificant.

(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.

## Note 2. Financial risk management (continued)

(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 2016 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.

## 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 un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

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

### Taxation (continued)

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 consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

### Fair value measurement

Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors determine the appropriate valuation techniques and inputs for fair value measurements.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

Fair value measurement (continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the company engages third party qualified valuers to perform the valuation.

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 4. Revenue from ordinary activities

| | 2016 $ | 2015 $ |
|---|---|---|
| Operating activities: | | |
| - services commissions | 2,113,747 | 1,976,997 |
| **Total revenue from operating activities** | **2,113,747** | **1,976,997** |
| Non-operating activities: | | |
| - interest received | 132 | 95 |
| - rental revenue | - | 25,660 |
| - dividends received | - | 400 |
| - profit on sale of non-current assets | - | 136,708 |
| - increase in net market value available-for-sale financial assets | 20,143 | - |
| - other revenue | 866 | 12,377 |
| **Total revenue from non-operating activities** | **21,141** | **175,240** |
| **Total revenues from ordinary activities** | **2,134,888** | **2,152,237** |

## Note 5. Expenses

| | 2016 $ | 2015 $ |
|---|---|---|
| Depreciation of non-current assets: | | |
| - buildings | 19,528 | 39,797 |
| - furniture and fittings | 15,101 | 16,641 |
| - leasehold improvements | 7,652 | 4,891 |
| - motor vehicles | 28,512 | 25,609 |
| Amortisation of non-current assets: | | |
| - franchise agreement | 26,868 | 26,868 |
| - lease incentive | 20,000 | 20,000 |
| | **117,661** | **133,806** |

| | 2016 $ | 2015 $ |
|---|---|---|
| **Note 5. Expenses (continued)** | | |
| Finance costs: | | |
| **- interest paid** | **6,174** | **29,971** |
| **Bad debts** | **2,635** | **1,507** |

## Note 6. Income tax expense

| | | |
|---|---|---|
| The components of tax expense comprise: | | |
| - Current tax | 60,987 | 66,246 |
| - Movement in deferred tax | (3,929) | 35,772 |
| - Adjustment to deferred tax to reflect change to tax rate in future periods | 1,150 | 1,519 |
| | **58,208** | **103,537** |
| The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows | | |
| Operating profit | 168,117 | 317,368 |
| Prima facie tax on profit from ordinary activities at 30% | 50,435 | 95,210 |
| Add tax effect of: | | |
| - non-deductible expenses | 6,098 | 6,016 |
| - non-assessable income | | - |
| - timing difference expenses | 4,454 | 5,275 |
| - other deductible expenses | - | (40,255) |
| | **60,987** | **66,246** |
| Movement in deferred tax | (3,929) | 35,772 |
| Adjustment to deferred tax to reflect change of tax rate in future periods | 1,150 | 1,519 |
| | **58,208** | **103,537** |

## Note 7. Cash and cash equivalents

| | | |
|---|---|---|
| **Cash at bank and on hand** | **149,153** | **157,658** |
| **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** | **149,153** | **157,658** |

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 8. Trade and other receivables

| | 2016 $ | 2015 $ |
|---|---|---|
| Trade receivables | 157,480 | 135,123 |
| Prepayments | 20,009 | 7,175 |
| | **177,489** | **142,298** |

## Note 9. Property, plant and equipment

| | 2016 $ | 2015 $ |
|---|---|---|
| Land and buildings | | |
| Freehold land at Winchelsea | | |
| At independent valuation (2011) | 100,000 | 100,000 |
| Buildings | | |
| At independent valuation (2011) | 158,500 | 158,500 |
| At cost | 439,252 | 439,252 |
| Less accumulated depreciation | (71,352) | (51,824) |
| | **526,400** | **545,928** |
| Total land and buildings | 626,400 | 645,928 |
| Leasehold improvements | | |
| Anglesea at cost | 283,858 | 196,537 |
| Less accumulated depreciation | (30,511) | (22,860) |
| | **253,347** | **173,677** |
| Plant and equipment | | |
| At cost | 13,377 | 13,377 |
| Less accumulated depreciation | (13,377) | (13,377) |
| | **-** | **-** |
| Motor vehicles | | |
| At cost | 228,088 | 228,088 |
| Less accumulated depreciation | (102,529) | (74,017) |
| | **125,559** | **154,071** |
| Furniture and fittings | | |
| At cost | 139,665 | 137,756 |
| Less accumulated depreciation | (88,519) | (73,417) |
| | **51,146** | **64,339** |
| **Total written down amount** | **1,056,452** | **1,038,015** |

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 9. Property, plant and equipment (continued)

**Movements in carrying amounts:**

| | 2016 $ | 2015 $ |
|---|---|---|
| Land | | |
| Carrying amount at beginning | 100,000 | 100,000 |
| **Carrying amount at end** | **100,000** | **100,000** |
| Buildings | | |
| Carrying amount at beginning | 545,928 | 565,457 |
| Additions | - | - |
| Disposals | - | - |
| Less: depreciation expense | (19,528) | (19,529) |
| **carrying amount at end** | **526,400** | **545,928** |
| Leasehold improvements | | |
| Carrying amount at beginning | 173,678 | 178,569 |
| Additions | 87,321 | - |
| Disposals | - | - |
| Less: depreciation expense | (7,652) | (4,891) |
| **Carrying amount at end** | **253,347** | **173,678** |
| Motor vehicles | | |
| Carrying amount at beginning | 154,071 | 60,281 |
| Additions | - | 119,399 |
| Disposals | - | - |
| Less: depreciation expense | (28,512) | (25,609) |
| **Carrying amount at end** | **125,559** | **154,071** |
| Furniture and fittings | | |
| Carrying amount at beginning | 64,338 | 79,937 |
| Additions | 1,909 | 1,043 |
| Disposals | - | - |
| Less: depreciation expense | (15,101) | (16,642) |
| **Carrying amount at end** | **51,146** | **64,338** |
| **Total written down amount** | **1,056,452** | **1,038,015** |

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|

## Note 10. Financial Assets

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| **Non-Current:** | | | |
| Available-for-sale financial assets | | | |
| Unlisted investments, at fair value: | | | |
| **- shares in other corporations** | **20** | **39,343** | **19,200** |

At balance date, the company held 40,000 shares in Vicwest Community Telco Limited (Vicwest). On 1 September 2016 Bendigo Telco Limited acquired all the shares of Vicwest by way of a scheme of arrangement between Vicwest and its shareholders. Under the terms of the scheme, Bendigo Telco Limited issued 1 share to Vicwest shareholders for every 2.074 Vicwest shares transferred to Bendigo Telco Limited. The financial asset has been revalued based the company receiving 19,286 shares in Bendigo Telco Limited, valued at $2.04 as at 30 June 2016.

## Note 11. Intangible assets

| | 2016 $ | 2015 $ |
|---|---|---|
| Franchise fee | | |
| At cost | 158,323 | 158,323 |
| Less: accumulated amortisation | (133,411) | (122,735) |
| | **24,912** | **35,588** |
| Renewal processing fee | | |
| At cost | 80,934 | 80,934 |
| Less: accumulated amortisation | (43,178) | (26,986) |
| | **37,756** | **53,948** |
| Anglesea lease buy-out | | |
| At cost | 100,000 | 100,000 |
| Less: accumulated amortisation | (100,000) | (80,000) |
| | **-** | **20,000** |
| **Total written down amount** | **62,668** | **109,536** |

## Note 12. Tax

| | 2016 $ | 2015 $ |
|---|---|---|
| **Current:** | | |
| **Income tax payable** | **23,472** | **24,521** |

# Notes to the financial statements (continued)

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|

## Note 12. Tax (continued)

**Non-Current:**

| | | | |
|---|---|---|---|
| Deferred tax assets | | | |
| - accruals | | 715 | 1,039 |
| - employee provisions | | 34,905 | 28,602 |
| - property, plant and equipment | | 1,848 | - |
| | | **37,468** | **29,641** |
| Deferred tax liability | | | |
| - financial assets | | 5,830 | - |
| - other | | - | 782 |
| | | **5,830** | **782** |
| **Net deferred tax asset** | | **31,638** | **28,859** |
| **Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income** | | **(2,779)** | **37,291** |

## Note 13. Trade and other payables

| | | | |
|---|---|---|---|
| **Other creditors and accruals** | | **56,217** | **50,681** |

## Note 14. Borrowings

**Current:**

| | | | |
|---|---|---|---|
| **Chattel mortgage** | **21** | **24,832** | **34,518** |
| **Non-Current:** | | | |
| **Chattel mortgage** | **21** | **69,951** | **94,782** |

The company finalised one chattel mortgage during the period and has one remaining in place. The chattel mortgage is secured against the underlying financed motor vehicle. Repayments are currently $2,283 per month with the facility set to expire in August 2017.

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 15. Provisions

**Current:**

| | | |
|---|---|---|
| Provision for annual leave | 57,516 | 44,743 |
| Provision for long service leave | 62,899 | 52,092 |
| | **120,415** | **96,835** |

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 15. Provisions (continued)

**Non-Current:**

| | | |
|---|---|---|
| **Provision for long service leave** | **6,514** | **3,524** |

## Note 16. Contributed equity

| | | |
|---|---|---|
| **1,421,200 ordinary shares fully paid (2015: 1,421,200)** | **966,000** | **966,000** |

A bonus share issue on a 4:5 basis (455,200 shares) was issued to all existing shareholders during 2007.

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.

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").

## Note 16. Contributed equity (continued)

Prohibited shareholding interest (continued)

- 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 303. As at the date of this report, the company had 482 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.

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 17. Reserves

| | | |
|---|---|---|
| **Asset revaluation reserve** | **18,500** | **18,500** |

## Note 18. Retained earnings

| | | |
|---|---|---|
| Balance at the beginning of the financial year | 206,205 | 77,646 |
| Net profit from ordinary activities after income tax | 109,909 | 213,831 |
| Dividends paid or provided for | (85,272) | (85,272) |
| **Balance at the end of the financial year** | **230,842** | **206,205** |

## Note 19. Statement of cash flows

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

| | | |
|---|---|---|
| Profit from ordinary activities after income tax | 109,909 | 213,831 |

| | 2016 $ | 2015 $ |
|---|---|---|
| **Note 19. Statement of cash flows (continued)** | | |
| Non cash items: | | |
| - depreciation | 70,793 | 86,938 |
| - amortisation | 46,868 | 46,868 |
| - increase in net market value available-for-sale financial assets | (20,143) | - |
| - profit on disposal of property, plant and equipment | - | (136,708) |
| Changes in assets and liabilities: | | |
| - (increase)/decrease in receivables | (35,190) | (12,029) |
| - (increase)/decrease in other assets | (2,779) | 37,291 |
| - increase/(decrease) in payables | 5,536 | (9,914) |
| - increase/(decrease) in provisions | 26,570 | (4,166) |
| - increase/(decrease) in current tax liabilities | (1,049) | 11,380 |
| **Net cash flows provided by operating activities** | **200,515** | **233,491** |

## Note 20. Fair value measurement

This section explains the judgements and estimates made in determining the fair values of the company's assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the applicable assets have been classified into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

| At 30 June 2016 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Recurring fair value measurements:** | | | | |
| Available-for-sale financial assets | | | | |
| Unlisted investments: | | | | |
| - shares in other corporations | - | - | 39,343 | 39,343 |
| | **-** | **-** | **39,343** | **39,343** |
| Property, Plant and Equipment | | | | |
| Freehold land | - | 100,000 | - | 100,000 |
| Buildings | - | 158,500 | - | 158,500 |
| | **-** | **258,500** | **-** | **258,500** |
| **Total assets at fair value** | **-** | **258,500** | **39,343** | **297,843** |

## Note 20. Fair value measurement (continued)

| At 30 June 2015 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **Recurring fair value measurements:** | | | | |
| Available-for-sale financial assets | | | | |
| Unlisted investments: | | | | |
| - shares in other corporations | - | - | 19,200 | 19,200 |
| | **-** | **-** | **19,200** | **19,200** |
| Property, Plant and Equipment | | | | |
| Freehold land | - | 100,000 | - | 100,000 |
| Buildings | - | 158,500 | - | 158,500 |
| | **-** | **258,500** | **-** | **258,500** |
| **Total assets at fair value** | **-** | **258,500** | **19,200** | **277,700** |

There were no transfers between Level 1 and Level 2 during the reporting period. The company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of available-for-sale financial assets traded in active markets is based on the quoted market price at the close of business at the end of the reporting period.

Level 2: The fair value of property, plant and equipment is based on a valuation performed by a third party qualified valuer using quoted prices for similar assets in an active market.

Level 3: On 1 September 2016 Bendigo Telco Limited acquired all the shares of Vicwest by way of a scheme of arrangement between Vicwest and its shareholders. Under the terms of the scheme, Bendigo Telco Limited issued 1 share to Vicwest shareholders for every 2.074 Vicwest shares transferred to Bendigo Telco Limited. The financial asset has been revalued based the company receiving 19,286 shares in Bendigo Telco Limited, valued at $2.04 as at 30 June 2016.

## Note 21. Leases/Chattel Mortgage

| | 2016 $ | 2015 $ |
|---|---|---|
| Chattel mortgage commitments | | |
| Payable - minimum repayments: | | |
| - not later than 12 months | 27,392 | 40,692 |
| - between 12 months and 5 years | 70,026 | 97,417 |
| - greater than 5 years | - | - |
| **Minimum lease payments** | **97,418** | **138,109** |
| Less future finance charges | (2,635) | (8,809) |
| **Present value of minimum lease payments** | **94,783** | **129,300** |

The chattel mortgage of the Yutong Bus, which commenced in September 2014, is a three year lease. Interest is recognised at an average rate of 5.89% (2015: 7.02%).

| | 2016 $ | 2015 $ |
|---|---|---|

## Note 21. Leases/Chattel Mortgage (continued)

Operating lease commitments

| | 2016 $ | 2015 $ |
|---|---|---|
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable - minimum lease payments: | | |
| - not later than 12 months | 113,770 | 70,079 |
| - between 12 months and 5 years | 465,080 | - |
| - greater than 5 years | 15,000 | - |
| | **593,850** | **70,079** |

The lease on the Anglesea branch property is a non-cancellable lease, commencing on 1 August 2010. The option for the first of three additional periods of five years each has been exercised and commenced on 1 July 2016 and will cease on 30 June 2021.  A further two options of five year terms remain available. Annual rent is currently $71,270 (plus GST).

The lease on the Lorne office property is a non-cancellable lease, commencing on 15 October 2015. The initial term of the lease ceases on 15 October 2016, however the Board has resolved to exercise the option for the first of three further five year terms which ceases on 15 October 2021. Annual rent is currently $45,000 (plus GST).

A sub-lease has also been established on the Lorne office property. The initial term of the sub-lease commences on 15 March 2016 and ceases 13 October 2016, with the option of three further terms of one year each. Rent payable to the company under the sub-lease is $10,000 per annum and has been offset against the operating lease commitments outlined above.

## Note 22. Auditor's remuneration

Amounts received or due and receivable by the auditor of the company for:

| | 2016 $ | 2015 $ |
|---|---|---|
| - audit and review services | 4,100 | 3,950 |
| - other non audit services | 3,790 | 3,525 |
| | **7,890** | **7,475** |

## Note 23. Director and related party disclosures

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

Vaughan Mervyn Lamb
Robert John Earl
John McKenzie Knuckey
Kenneth Ian McDonald
John Hubert Tebbutt
Michael Cole McConnell
Robyn Gaye Erwin
Pamela Margaret Sandlant
Raylene Margaret Fordham
Michael Francis Fitzgerald (Resigned 10 November 2015)
Jennifer Anne Sewell (Resigned 10 November 2015)

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.

| | 2016 | 2015 |
|---|---|---|
| **Directors' shareholdings** | | |
| Vaughan Mervyn Lamb | - | - |
| Robert John Earl | 15,600 | 15,600 |
| John McKenzie Knuckey | 4,700 | 4,700 |
| Kenneth Ian McDonald | 3,600 | 3,600 |
| John Hubert Tebbutt | - | - |
| Michael Cole McConnell | 9,000 | 9,000 |
| Robyn Gaye Erwin | - | - |
| Pamela Margaret Sandlant | - | - |
| Raylene Margaret Fordham | - | - |
| Michael Francis Fitzgerald (Resigned 10 November 2015) | 10,000 | 10,000 |
| Jennifer Anne Sewell (Resigned 10 November 2015) | 3,000 | 3,000 |

There was no movement in directors shareholdings during the year.

## Note 24. Dividends paid or provided

| | 2016 $ | 2015 $ |
|---|---|---|
| **a. Dividends paid during the year** | | |
| Prior year final dividend | | |
| **100% (2015: 100%) franked dividend - 6 cents (2015: 6 cents) per share** | **85,272** | **85,272** |
| The tax rate at which dividends have been franked is 30% (2015: 30%). Dividends proposed will be franked at a rate of 30% (2015: 30%). | | |
| **b. Franking account balance** | | |
| Franking credits available for subsequent reporting periods are: | | |
| - franking account balance as at the end of the financial year | 215,313 | 189,822 |
| - franking credits that will arise from payment of income tax as at the end of the financial year | 23,472 | 24,521 |
| - franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year | - | - |
| **Franking credits available for future financial reporting periods:** | **238,785** | **214,343** |
| - franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period | - | - |
| **Net franking credits available** | **238,785** | **214,343** |

## Note 25. 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.

**Community Bank**® Directors' Privileges Package

The company has accepted the Bendigo and Adelaide Bank Limited's **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 branch. There is no requirement to own Bendigo and Adelaide Bank Limited 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.

For the year ended 30 June 2016 there have been no benefits received by the Directors from the Directors Privilege Package.

| | 2016 $ | 2015 $ |
|---|---|---|
| **Note 26. Earnings per share** | | |
| (a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share | 109,909 | 213,831 |

| | Number | Number |
|---|---|---|
| (b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 1,421,200 | 1,421,200 |

## Note 27. Events occurring after the reporting date

A core principle of the **Community Bank**® model is a 50/50 share of margin earned on core banking products. To better reflect this core principal, a new Revenue Share model was introduced from 1 July, 2016.

Bendigo and Adelaide Bank Ltd ("BEN") has adopted a Funds Transfer Pricing (FTP) model for **Community Bank**® Revenue Share, effective 1 July 2016. BEN applies its FTP methodology to regulatory reporting, performance management and revenue share. The FTP model:

- is a method used to measure how much each account or product is contributing to overall profitability, given a current cost of marginal funding.
- gives the BEN Group a better understanding of the net interest margin component of overall profitability.
- assigns a FTP rate based on the repricing characteristics and behavioural duration of products.

The BEN FTP revenue share sources **Community Bank**® product data and then applies BENs FTP rates to calculate revenue share for each **Community Bank**® branch by core banking product i.e. loans and deposits. The BEN FTP revenue share is reported to each **Community Bank**® company on a monthly basis.

The FTP methodology is reviewed annually with changes approved by BEN's Asset & Liability Management Committee (ALMAC). BEN's Board Risk Committee approves changes to the FTP Policy.

Subject to the size of the impact of the changes to a **Community Bank**® company's revenue share and a calculated baseline revenue, transitional support arrangements have been made by BEN for those companies adversely affected by these changes to the financial model, for a maximum period of up to 3 years. The purpose of this transitional support is to provide the **Community Bank**® company with a revenue baseline while it grows and diversifies its business to increase revenue.

At balance date, the company held an investment of shares in Vicwest Community Telco Limited (Vicwest). On 1 September 2016 Bendigo Telco Limited acquired all the shares of Vicwest by way of a scheme of arrangement between Vicwest and its shareholders. Under the terms of the scheme, Bendigo Telco Limited issued 1 share to Vicwest shareholders for every 2.074 Vicwest shares transferred to Bendigo Telco Limited. The company's investment has been revalued based on the market value of Bendigo Telco Limited shares as at 30 June 2016.

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

## Note 28. 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 29. Segment reporting

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

## Note 30. 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**

Corangamite Financial Services Ltd
11 Main Street,
Winchelsea VIC 3241

**Principal Place of Business**

Winchelsea **Community Bank**® Branch
11 Main Street,
Winchelsea VIC 3241

Anglesea **Community Bank**® Branch
97 Great Ocean Road,
Anglesea VIC 3230

## Note 31. 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.

| | Floating interest | | Fixed interest rate maturing in | | | | | | Non interest bearing | | Weighted average | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 year or less | | Over 1 to 5 years | | Over 5 years | | | | | |
| **Financial instrument** | **2016 $** | **2015 $** | **2016 $** | **2015 $** | **2016 $** | **2015 $** | **2016 $** | **2015 $** | **2016 $** | **2015 $** | **2016 %** | **2015 %** |
| **Financial assets** | | | | | | | | | | | | |
| Cash and cash equivalents | 149,013 | 157,363 | - | - | - | - | - | - | 140 | 295 | 0.07 | 0.12 |
| Receivables | - | - | - | - | - | - | - | - | 157,480 | 135,123 | N/A | N/A |
| **Financial liabilities** | | | | | | | | | | | | |
| Interest bearing liabilities | 24,832 | 34,518 | 69,951 | 94,782 | - | - | - | - | - | - | 5.89 | 6.88 |
| Payables | - | - | - | - | - | - | - | - | 56,217 | 50,681 | 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.

## Note 31. Financial instruments (continued)

### 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 2016, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

| | **2016**<br>**$** | **2015**<br>**$** |
|---|---|---|
| Change in profit | | |
| Increase in interest rate by 1% | 542 | 281 |
| Decrease in interest rate by 1% | (542) | (281) |
| Change in equity | | |
| Increase in interest rate by 1% | 542 | 281 |
| Decrease in interest rate by 1% | (542) | (281) |

# Directors' declaration

In accordance with a resolution of the directors of Corangamite 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 2016 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.

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

**Vaughan Mervyn Lamb,**
**Chairman**

Signed on the 27th of September 2016.

# Independent audit report

Partners in success

Chartered Accountants

## Independent auditor's report to the members of Corangamite Financial Services Limited

### Report on the financial report

We have audited the accompanying financial report of Corangamite Financial Services Limited, which comprises the balance sheet as at 30 June 2016, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

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



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### Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report.

### Auditor's opinion on the financial report

In our opinion:

1. The financial report of Corangamite Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2016 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Andrew Frewin Stewart**
61 Bull Street, Bendigo Vic 3550
Dated: 27 September 2016

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

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