Annual Report 2017

Heathcote & District Financial Services Limited

ABN 44 112 376 986

Heathcote & District **Community Bank**® Branch
Nagambie branch

Contents

Chairman's report

For year ending 30 June 2017

A year of foundation building

The 2016/17 financial year for Heathcote and District Financial Services Limited (HDFSL) has been one of solid foundation building.

The Board devoted significant amounts of time, energy and resources to a number of issues that, we strongly believe, have laid solid groundwork for the future advancement of your Bank and how it benefits the regional community.

Second franchise - Nagambie

Our Nagambie operations have been converted into a fully-fledged franchise. While this required the commitment of some capital it means that the **Community Bank**® company has a significant presence in Nagambie and is able to provide the complete range of services to that active and growing town and region. By being a full franchise the share of profitability to HDFSL has increased and we are fully in control of staffing, operations and costs.

The Board's view is that this doubles our regional presence and if we are able to achieve similar levels of market share over time as we have in Heathcote it will significantly enhance our overall profitability. Through this increased profitability will be better able to provide financial support for both the Heathcote and Nagambie regions.

The Board is keenly focused on the growth rates and management of costs for this new operation.

Changes to our team

During the year Mr Les Owens signalled his intention to retire. Les has been instrumental in the growth and success of HDFSL over his 10-year tenure with the **Community Bank**® company. We acknowledge and thank him for his efforts and support for over that time and wish him well in retirement.

To prepare for Les' retirement and to ensure we had a solid foundation in our loyal team, we progressively made a number of changes over the year.

Teri Johnson has been promoted to the position of Customer Relationship Manager and is largely focussed on management of the day-to-day operations in Heathcote including an expanded role in lending. This has left Michael Prowse, our Branch Manager, free to spend more time overseeing both the Heathcote and Nagambie operations with a significant focus on growing all aspects of our business in Nagambie.

Jacqueline Scorgie and Brea Bell joined our team to service Nagambie customers and they join Josephine Jacobs, Marlene Troy and Krystal Eickert who make up our full customer service team across both branches.

Also adding to our overall team strength was the appointment of two new Directors, Mr Brad Todd and Mr Andrew Campbell. Both are deeply involved in their local communities and are active in their own business operations.
They bring to the Board table fresh perspectives and significant enthusiasm for our continued success. During the year we farewelled Simon Osicka and Rachel Paterson who were both long term Directors and had given outstanding service to the **Community Bank**® company.

Bricks and mortar foundations

It is worth reporting that during the year the **Community Bank**® company released funds from the Community Enterprise Foundation™ totalling $160,000 as the community contribution to the redevelopment of the Barrack Reserve pavilion. This is a project valued at over $2 million and will provide a modern and attractive facility for sporting, cultural, community and tourism events right in the heart of Heathcote. The project would not have received the local government and state funding to proceed without the seed funding provided by the **Community Bank**® company.

Chairman's report (continued)

Financial results

It is well reported that the operating margins for all Australian banks are tight and HDFSL is no exception. Despite this, a prudent approach to our operations meant we were able to remain strongly profitable a declared a profit of $45,283. This was after contributing $259,000 to community support over the year and transferring funds to the Community Enterprise Foundation™ for future significant undertakings that benefit the community. The amount transferred to the Community Enterprise Foundation™ was $52,000. This is lower than in recent years and is a reflection of the tougher trading conditions experienced.

Also reflecting the tougher trading conditions is the decision to slightly lower the dividend to shareholders. The precise dividend is still to be determined and will be announced at the Annual General Meeting to shareholders.

We expect trading condition to be slightly more favourable in the 2017/18 financial year with indications margins are improving and no significant global issues indicated.

Your Directors continue to be focussed on the twin goals of operating a profitable and growing **Community Bank**® company that generates profits that can then be used for the benefit of its communities and its shareholders.

Stephen Trompp
Chair

Manager’s report

For year ending 30 June 2017

It is with great pleasure that I present my third Manager’s report for the Heathcote & District Financial Services Limited (HDFSL) Annual Report.

Much like the previous financial year, 2016/17 saw our business finish with a mixture of results. Lending growth was again a challenging area, which due to the current tough climate and low interest rates encouraging our customer base to pay off debt, we experienced a negative lending growth amount of $2.3 million. Our overall business growth was $4.5 million mainly due to the great year we experienced with deposits, a positive figure of $6.6 million.

Another positive was the great result we achieved again with our insurance sales. Achieving two out of the three main target areas was a pleasing result, which all staff contributed towards.

I want to thank the commitment of all our staff including Teri Johnson, Krystal Eickert, Jo Jacobs, Marlene Troy and current Nagambie staff members in Jacqueline Scorgie and Brea Bell. We had two departures throughout the year in Nagambie staff member Kerri Ackehurst and long-time staff member Les Owens. I want to thank both individuals for their time spent building our business but in particular Les who was instrumental in building the foundations of what our business is today. Les retired in July 2017, which coincided with 10 years’ service with the Bendigo Bank and HDFSL. On behalf of the entire team I would like to wish Les all the best with whatever the future holds and hope he enjoys all the comforts that come with retirement.

Our business growth in Nagambie has started well with a combination of becoming a branch and the creation of the **Community Bank**® company’s first ‘Community Office’ instilling awareness and confidence in the local community. A lot of hard work is still ahead of us however I’m confident we will succeed due to the high level of opportunity that’s awaiting us in the Nagambie community. The unique Community Office concept, the brainchild of Chairman Stephen Trompp, has started to prosper with local community members being encouraged to utilise the facility. The Community Office is designed to help reduce the burden on volunteer administrators and I encourage all Nagambie and district residents to come in and speak to us about the advantages it could provide for their clubs/groups.

I would like to thank Chairman Stephen Trompp and our Board of Directors for their support and guidance throughout the past year. This group of community-minded individuals volunteer countless hours each month to ensure Heathcote and district prospers from funds raised via our customers choosing to bank with us. The time and dedication they provide towards running HDFSL is a credit to each and every one of them and I again thank them for their commitment to the business.

Our Company Secretary Hannah Thomson is also a vital part of our business and I want to personally thank her for helping drive our business forward. She provides a great resource with our social media footprint as well as the many other administrative tasks she undertakes. Thanks Hannah.

The previous year saw one of our Regional Managers in Jodie McLeod move to another region to take on a new challenge. Jodie was instrumental in providing a great level of leadership to our team and I would like to thank her for her efforts and wish her good luck in the future. To our current support team in John Sirolli, new Regional Manager Shaun Leech, Local Connection Coordinator Nina Cass and all other local connection team members, thank you for your support.

Finally, to our valued customer base, thank you for allowing us to service your banking requirements. You are the reason we are able to invest money back into Heathcote and district community and without your support, the local community would be much worse off. Thank you for your continued support and our team looks forward to working more closely with you in the coming year.

Michael Prowse
Branch Manager

Directors' report

For the financial year ended 30 June 2017

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

Directors

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

Stephen Roger Trompp

Chairman

Occupation: Retired

Qualifications, experience and expertise: Over 30 years experience in senior management in the financial services sector. Particular emphasis on financial product design, development and marketing.

Special responsibilities: Chairman

Interest in shares: 1,700

Ian George Rohde

Treasurer

Occupation: Farmer

Qualifications, experience and expertise: Ian was formerly Managing Director of Warakirri Asset Management which manages investments for superannuation funds and charities. He worked for more than 25 years in the investment industry following a period of 11 years with the former State Electricity Commission of Victoria in a variety of treasury, accounting and middle management roles. Ian has previously been on the Boards of the Jigsaw Foundation (associated with the Royal Children's Hospital in Melbourne), Old Colonists Association of Victoria and Advisory Council for Children With Impaired Hearing (Vic) charities.

Special responsibilities: Treasurer

Interest in shares: 1,000

Barry Maxwell Cail

Director

Occupation: Businessman

Qualifications, experience and expertise: Extensive experience in the **Community Bank**® system, businessman with experience in small business operation and journalist with long experience in public relations and marketing.

Special responsibilities: Nil

Interest in shares: 2,001

Gregory Ian Speirs

Director

Occupation: Retired

Qualifications, experience and expertise: Local Government, Lions Club Member (past President, Treasurer and Secretary), Bowls Club Member (President and past Secretary), Licensed Surveyor, Town Planner and Justice of Peace.

Special responsibilities: Sponsorship/ Marketing committee

Interest in shares: 5,000

Directors (continued)

Colin Bernard Stobaus

Director

Occupation: Retired

Qualifications, experience and expertise: Registered building practioner. President of Heathcote Golf club and a previous Director of a **Community Bank**® branch.

Special responsibilities: Nil

Interest in shares: 3,001

Bradley Adam Todd

Director (Appointed 16 March 2017)

Occupation: Real Estate Agent - Director Todd Property Heathcote

Qualifications, experience and expertise: Licenced Estate Agent, Bachelors of Business (La Trobe) with 12 years Real Estate Industry experience. Real Estate Institute of Victoria (REIV) member.

Special responsibilities: Nil

Interest in shares: Nil

Andrew Neil Campbell

Director (Appointed 27 June 2017)

Occupation: Wool Grower

Qualifications, experience and expertise: Registered Wool Classer and Officer Redesdale CFA.

Special responsibilities: Nil

Interest in shares: Nil

Simon Osicka

Director (Resigned 4 July 2016)

Occupation: Wine Maker

Qualifications, experience and expertise: Currently working for a small privately owned wine company. Previous experience in various management roles in a large publicly listed (both ASX and NYSE) companies.

Special responsibilities: Nil

Interest in shares: 1,000

Rachel Alice Patterson

Director (Resigned 3 April 2017)

Occupation: Events & Public Relations Consultant

Qualifications, experience and expertise: Principal Paterson PR & Paterson Projects - Public Relations, Marketing and Event Planning and Management. Community Engagement Officer, Graduate Loddon Murray Community Leadership Program and Regional Tourism & Hospitality.

Special responsibilities: Nil

Interest in shares: Nil

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

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

Company Secretary

The company Secretary is Hannah Thomson. Hannah was appointed to the position of Secretary in October 2012. Hannah has extensive experience in areas of managing accounts and customer service.

Directors' report (continued)

Principal Activities

The principal activities of the company during the financial year were facilitating **Community Bank**® services under management rights to operate 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 2017 $	Year ended 30 June 2016 $
45,283	71,931

Dividends

	Year ended 30 June 2017	
	Cents	$
Dividends paid in the year:	7.5	44,618

Significant changes in the state of affairs

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

Events since the end of the financial year

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

Likely developments

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

Environmental regulation

The company is not subject to any significant environmental regulation.

Directors' benefits

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest except as disclosed in note 19 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and insurance of Directors and Officers

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

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

Directors' meetings

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

	Directors' Meetings	
	Eligible	**Attended**
Stephen Roger Trompp	13	12
Ian George Rohde	13	12
Barry Maxwell Cail	13	13
Gregory Ian Speirs	13	10
Colin Bernard Stobaus *	13	5
Bradley Adam Todd (Appointed 16 March 2017)	3	3
Andrew Neil Campbell (Appointed 27 June 2017)	1	1
Simon Osicka (Resigned 4 July 2016)	1	1
Rachel Alice Patterson (Resigned 3 April 2017)	11	7

* - leave of absence November 2016 to June 2017.

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:

- 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 10.

Signed in accordance with a resolution of the board of Directors at Heathcote, Victoria on 19 September 2017.

Stephen Roger Trompp,
Chairman

Auditor's independence declaration

Partners in success

Chartered Accountants

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

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

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

i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550
Dated: 19 September 2017

David Hutchings
Lead Auditor

Taxation | Audit | Business Services

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Notes	2017 $	2016 $
Revenue from ordinary activities	4	969,451	984,065
Employee benefits expense		(520,626)	(447,930)
Charitable donations, sponsorship, advertising and promotion		(114,787)	(156,807)
Occupancy and associated costs		(70,253)	(58,887)
Systems costs		(25,023)	(26,669)
Depreciation and amortisation expense	5	(28,331)	(25,702)
Finance costs	5	(955)	-
General administration expenses		(149,002)	(165,986)
Profit before income tax expense		**60,474**	**102,084**
Income tax expense	6	(15,191)	(30,153)
Profit after income tax expense		**45,283**	**71,931**

Earnings per share		**¢**	**¢**
Basic earnings per share	22	7.61	12.09

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2017

	Notes	2017 $	2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	403,630	355,768
Trade and other receivables	8	37,508	53,960
Current tax asset	11	8,143	-
Total Current Assets		**449,281**	**409,728**
Non-Current Assets			
Property, plant and equipment	9	105,599	91,078
Intangible assets	10	84,943	62,649
Total Non-Current Assets		**190,542**	**153,727**
Total Assets		**639,823**	**563,455**
LIABILITIES			
Current Liabilities			
Trade and other payables	12	84,725	14,733
Current tax liabilities	11	-	6,284
Borrowings	13	8,245	7,801
Total Current Liabilities		**92,970**	**28,818**
Non-Current Liabilities			
Trade and other payables	12	13,213	-
Borrowings	13	7,882	16,128
Deferred tax liabilities	11	13,278	6,694
Total Non-Current Liabilities		**34,373**	**22,822**
Total Liabilities		**127,343**	**51,640**
Net Assets		**512,480**	**511,815**
Equity			
Issued capital	14	558,357	558,357
Accumulated losses	15	(45,877)	(46,542)
Total Equity		**512,480**	**511,815**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2017

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2015	**558,357**	**(73,855)**	**484,502**
Total comprehensive income for the year	-	71,931	71,931
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(44,618)	(44,618)
Balance at 30 June 2016	**558,357**	**(46,542)**	**511,815**
Balance at 1 July 2016	**558,357**	**(46,542)**	**511,815**
Total comprehensive income for the year	-	45,283	45,283
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(44,618)	(44,618)
Balance at 30 June 2017	**558,357**	**(45,877)**	**512,480**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		1,055,134	1,056,133
Payments to suppliers and employees		(897,687)	(953,289)
Interest received		7,931	7,530
Interest paid		(955)	-
Income taxes paid		(23,034)	(20,603)
Net cash provided by operating activities	**16**	**141,389**	**89,771**
Cash flows from investing activities			
Payments for property, plant and equipment		(41,107)	(33,572)
Payments for intangible assets		-	(68,056)
Net cash used in investing activities		**(41,107)**	**(101,628)**
Cash flows from financing activities			
Proceeds from borrowings		-	23,929
Repayment of borrowings		(7,802)	-
Dividends paid		(44,618)	(44,618)
Net cash used in financing activities		**(52,420)**	**(20,689)**
Net increase/(decrease) in cash held		**47,862**	**(32,546)**
Cash and cash equivalents at the beginning of the financial year		355,768	388,314
Cash and cash equivalents at the end of the financial year	**7(a)**	**403,630**	**355,768**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2017

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

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

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

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 Heathcote and Nagambie, 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.

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 and assistance in relation to:

- 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

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.

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Revenue calculation (continued)

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

Core banking products

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

Margin

Margin is arrived at through the following calculation:

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

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

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

Commission

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

Fee income

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

Discretionary financial contributions

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

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

It is for the board to decide how to use the MDF.

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

Note 1. Summary of significant accounting policies (continued)

b) Revenue (continued)

Ability to change financial return

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

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

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

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

Monitoring and changing financial return

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

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

c) Income tax

Current tax

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

Deferred tax

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

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

Note 1. Summary of significant accounting policies (continued)

c) Income tax (continued)

Deferred tax (continued)

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.

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.

Note 1. Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

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

h) Intangibles

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

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

i) Payment terms

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

j) Borrowings

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

k) Financial instruments

<u>Recognition and initial measurement</u>

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.

<u>Derecognition</u>

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.

<u>Classification and subsequent measurement</u>

(i) Loans and receivables

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

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

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

Note 1. Summary of significant accounting policies (continued)

k) Financial instruments (continued)

Impairment

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

l) Leases

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

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

m) Provisions

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

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

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

(iii) Credit risk

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

(iv) Liquidity risk

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

(v) Cash flow and fair value interest rate risk

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

(vi) Capital management

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

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

The distribution limit is the greater of:

(a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period where the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

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

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

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.

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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

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.

Note 3. Critical accounting estimates and judgements (continued)

Impairment of assets (continued)

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.

	2017 $	**2016 $**

Note 4. Revenue from ordinary activities

Operating activities:		
- gross margin	724,441	689,339
- services commissions	128,169	144,329
- fee income	83,910	92,867
- market development fund	25,000	50,000
Total revenue from operating activities	**961,520**	**976,535**
Non-operating activities:		
- interest received	7,931	7,530
Total revenue from non-operating activities	**7,931**	**7,530**
Total revenues from ordinary activities	**969,451**	**984,065**

Note 5. Expenses

Depreciation of non-current assets:		
- plant and equipment	2,826	1,596
- leasehold improvements	5,352	6,249
- motor vehicle	6,410	4,048

	2017 $	2016 $
Note 5. Expenses (continued)		
Amortisation of non-current assets:		
- franchise agreement	2,290	2,325
- franchise renewal fee	11,343	11,484
- establishment fee	110	-
	28,331	**25,702**
Finance costs:		
- interest paid	**955**	**-**
Bad debts	**651**	**333**
Loss on disposal of asset	**11,998**	**-**

Note 6. Income tax expense

	2017 $	2016 $
The components of tax expense comprise:		
- Current tax	10,047	25,220
- Movement in deferred tax	6,584	7,921
- Adjustment to deferred tax to reflect change to tax rate in future periods	-	(244)
- Under/(Over) provision of tax in the prior period	(1,440)	(2,744)
	15,191	**30,153**
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows		
Operating profit	60,474	102,084
Prima facie tax on profit from ordinary activities at 27.5% (2016: 28.5%)	16,630	30,534
Add tax effect of:		
- non-deductible expenses	3,300	-
- timing difference expenses	(9,883)	(5,314)
	10,047	**25,220**
Movement in deferred tax	6,584	7,921
Adjustment to deferred tax to reflect change of tax rate in future periods	-	(244)
Under/(Over) provision of income tax in the prior year	(1,440)	(2,744)
	15,191	**30,153**

	2017 $	2016 $

Note 7. Cash and cash equivalents

	2017 $	2016 $
Cash at bank and on hand	106,086	58,224
Term deposits	297,544	297,544
	403,630	**355,768**
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	106,086	58,224
Term deposits	297,544	297,544
	403,630	**355,768**

Note 8. Trade and other receivables

	2017 $	2016 $
Trade receivables	31,457	44,758
Prepayments	6,051	892
Other receivables and accruals	-	8,310
	37,508	**53,960**

Note 9. Property, plant and equipment

	2017 $	2016 $
Leasehold improvements		
At cost	123,200	93,016
Less accumulated depreciation	(66,693)	(61,341)
	56,507	**31,675**
Plant and equipment		
At cost	68,800	54,377
Less accumulated depreciation	(40,930)	(38,104)
	27,870	**16,273**
Motor vehicles		
At cost	24,659	54,199
Less accumulated depreciation	(3,437)	(11,069)
	21,222	**43,130**
Total written down amount	**105,599**	**91,078**

Notes to the financial statements (continued)

	2017 $	2016 $
Note 9. Property, plant and equipment (continued)		
Movements in carrying amounts:		
Leasehold improvements		
Carrying amount at beginning	31,675	37,924
Additions	30,184	-
Disposals	-	-
Less: depreciation expense	(5,352)	(6,249)
Carrying amount at end	**56,507**	**31,675**
Plant and equipment		
Carrying amount at beginning	16,273	8,956
Additions	14,423	8,914
Disposals	-	-
Less: depreciation expense	(2,826)	(1,597)
Carrying amount at end	**27,870**	**16,273**
Motor vehicles		
Carrying amount at beginning	43,130	22,519
Additions	-	24,659
Disposals	(15,498)	-
Less: depreciation expense	(6,410)	(4,048)
Carrying amount at end	**21,222**	**43,130**
Total written down amount	**105,599**	**91,078**

Note 10. Intangible assets

Franchise fee		
At cost	88,974	82,968
Less: accumulated amortisation	(76,217)	(73,927)
	12,757	**9,041**
Establishment fee		
At cost	30,031	-
Less: accumulated amortisation	(110)	-
	29,921	**-**
Renewal processing fee		
At cost	114,839	114,839
Less: accumulated amortisation	(80,976)	(69,633)
	33,863	**45,206**

	2017 $	2016 $
Note 10. Intangible assets (continued)		
Goodwill on purchase of agency		
At cost	8,402	8,402
Less: accumulated impairment losses	-	-
	8,402	**8,402**
Total written down amount	**84,943**	**62,649**

Note 11. Tax

Current:		
Income tax payable/(refundable)	**(8,143)**	**6,284**
Non-Current:		
Deferred tax assets		
- accruals	743	990
	743	**990**
Deferred tax liability		
- property, plant and equipment	14,021	7,684
	14,021	**7,684**
Net deferred tax liability	**(13,278)**	**(6,694)**
Movement in deferred tax charged to Statement of Profit or Loss and Other Comprehensive Income	**6,584**	**7,677**

Note 12. Trade and other payables

Current:		
Trade creditors	3,675	1,970
Other creditors and accruals	81,050	12,763
	84,725	**14,733**
Non-Current:		
Other creditors and accruals		
	13,213	**-**

	Note	2017 $	2016 $

Note 13. Borrowings

	Note	2017 $	2016 $
Current:			
Chattel mortgage		8,757	8,756
Less: unexpired interest		512	955
	17	**8,245**	**7,801**
Non-Current:			
Chattel mortgage		8,027	16,784
Less: unexpired interest		145	656
	17	**7,882**	**16,128**

Finance Lease is repayable at $729.74 per month with the final payment due 23 April 2019. Interest is recognised at an average rate of 4.40%. The loan is secured by a fixed and floating charge over the company's assets.

Note 14. Contributed equity

		2017 $	2016 $
594,910 ordinary shares fully paid (2016: 594,910)		594,910	594,910
Less: equity raising expenses		(36,553)	(36,553)
		558,357	**558,357**

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).

Note 14. Contributed equity (continued)

Rights attached to shares (continued)

(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 they control or own 10% or more of the shares in the company (the "10% limit").

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

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

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

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

Note 15. Accumulated losses

	2017 $	**2016 $**
Balance at the beginning of the financial year	(46,542)	(73,855)
Net profit from ordinary activities after income tax	45,283	71,931
Dividends paid or provided for	(44,618)	(44,618)
Balance at the end of the financial year	**(45,877)**	**(46,542)**

	2017 $	2016 $

Note 16. Statement of cash flows

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

Profit from ordinary activities after income tax	45,283	71,931
Non cash items:		
- depreciation	14,588	11,893
- amortisation	13,743	13,809
- loss on disposal of asset	11,998	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	16,452	(14,219)
- (increase)/decrease in other assets	(8,143)	983
- increase/(decrease) in payables	47,168	(3,193)
- increase(decrease) in tax liabilities	300	8,567
Net cash flows provided by operating activities	**141,389**	**89,771**

Note 17. Leases

Finance lease commitments

Payable - minimum lease payments:		
- not later than 12 months	8,757	8,756
- between 12 months and 5 years	8,027	16,784
Minimum lease payments	**16,784**	**25,540**
Less future finance charges	657	1,611
Present value of minimum lease payments	**16,127**	**23,929**

Finance Lease is repayable at $729.74 per month with the final payment due 23 April 2019. Interest is recognised at an average rate of 4.40%. The loan is secured by a fixed and floating charge over the company's assets.

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments:		
- not later than 12 months	44,051	42,374
- between 12 months and 5 years	85,034	124,305
	129,085	**166,679**

The Heathcote lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The extension option was taken up in July 2015 for an additional five years.

The Nagambie lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The lease commenced in April 2015.

	2017 $	2016 $

Note 18. Auditor's remuneration

Amounts received or due and receivable by the Auditor of the company for:		
- audit and review services	5,300	5,100
- share registry services	3,678	3,585
- non audit services	2,230	2,490
	11,208	**11,175**

Note 19. Director and related party disclosures

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

Stephen Roger Trompp

Ian George Rohde

Barry Maxwell Cail

Gregory Ian Speirs

Colin Bernard Stobaus

Bradley Adam Todd (Appointed 16 March 2017)

Andrew Neil Campbell (Appointed 27 June 2017)

Simon Osicka (Resigned 4 July 2016)

Rachel Alice Patterson (Resigned 3 April 2017)

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

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

	2017 $	2016 $
Transactions with related parties:		
Barry Cail, in the capacity of part-owner of Bendigo Copy Centre, supplied printing services to the value of	555	840

	2017	2016
Directors' Shareholdings		
Stephen Roger Trompp	1,700	1,700
Ian George Rohde	1,000	-
Barry Maxwell Cail	2,001	2,001
Gregory Ian Speirs	5,000	5,000
Colin Bernard Stobaus	3,001	3,001
Bradley Adam Todd (Appointed 16 March 2017)	-	-
Andrew Neil Campbell (Appointed 27 June 2017)	-	-

Note 19. Director and related party disclosures (continued)

	2017	2016
Directors' Shareholdings (continued)		
Simon Osicka (Resigned 4 July 2016)	1,000	1,000
Rachel Alice Patterson (Resigned 3 April 2017)	-	-

There was a movement in Directors' shareholdings during the year.

Note 20. Dividends paid or provided

a. Dividends paid during the year		
Current year dividend		
100% (2016: 100%) franked dividend - 7.5 cents (2016: 7.5 cents) per share	**44,618**	**44,618**
The tax rate at which dividends have been franked is 27.5% (2016: 30%).		
b. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	45,314	39,204
- franking credits/(debits) that will arise from payment/(refund) of income tax as at the end of the financial year	(8,143)	5,824
- 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:	**37,171**	**45,028**
- 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	**37,171**	**45,028**

Note 21. Key management personnel disclosures

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

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

	2017 $	2016 $

Note 22. Earnings per share

(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	45,283	71,931

	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	594,910	594,910

Note 23. Events occurring after the reporting date

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

Note 24. Contingent liabilities and contingent assets

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

Note 25. Segment reporting

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

Note 26. Registered office/Principal place of business

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

Registered Office
Shop 2, 119 High Street
Heathcote VIC 3523

Principal Place of Business
Shop 2, 119 High Street
Heathcote VIC 3523

Note 27. 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	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 $**	**2016 $**	**2017 %**	**2016 %**
Financial assets												
Cash and cash equivalents	104,936	57,674	297,544	297,544	-	-	-	-	1,150	550	1.97	1.87
Receivables	-	-	-	-	-	-	-	-	31,457	44,758	N/A	N/A
Financial liabilities												
Interest bearing liabilities	-	-	8,245	7,801	7,882	16,128	-	-	-	-	4.40	4.40
Payables	-	-	-	-	-	-	-	-	3,675	1,970	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.

Notes to the financial statements (continued)

Note 27. 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 2017, the effect on profit and equity as a result of changes in interest rate, with all other variables remaining constant would be as follows:

	2017 $	**2016 $**
Change in profit/(loss)		
Increase in interest rate by 1%	3,864	3,313
Decrease in interest rate by 1%	(3,864)	(3,313)
Change in equity		
Increase in interest rate by 1%	3,864	3,313
Decrease in interest rate by 1%	(3,864)	(3,313)

Directors' declaration

In accordance with a resolution of the Directors of Heathcote & District Financial Services Limited, we state that:

In the opinion of the Directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the Directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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

Stephen Roger Trompp,
Chairman

Signed on the 19th of September 2017.

Independent audit report

AFS
Partners in success
Chartered Accountants

61 Bull Street, Bendigo 3550
PO Box 454, Bendigo 3552
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Independent auditor's report to the members of Heathcote & District Financial Services Limited

Report on the audit of the financial statements

Our opinion
In our opinion, the financial report of Heathcote & District Financial Services Limited is in accordance with the *Corporations Act 2001*, including:

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

What we have audited
Heathcote & District Financial Services Limited's (the company) financial report comprises the:

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

Basis for opinion
We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

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

Other information
The company usually prepares an annual report that will include the financial statements, directors' report and declaration and our independence declaration and audit report (the financial report). The annual report may also include "other information" on the entity's operations and financial results and financial position as set out in the financial report, typically in a Chairman's report and Manager's report, and reports covering governance and shareholder matters.

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

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

Our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

Andrew Frewin Stewart
61 Bull Street, Bendigo, 3550
Dated: 19 September 2017

David Hutchings
Lead Auditor

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